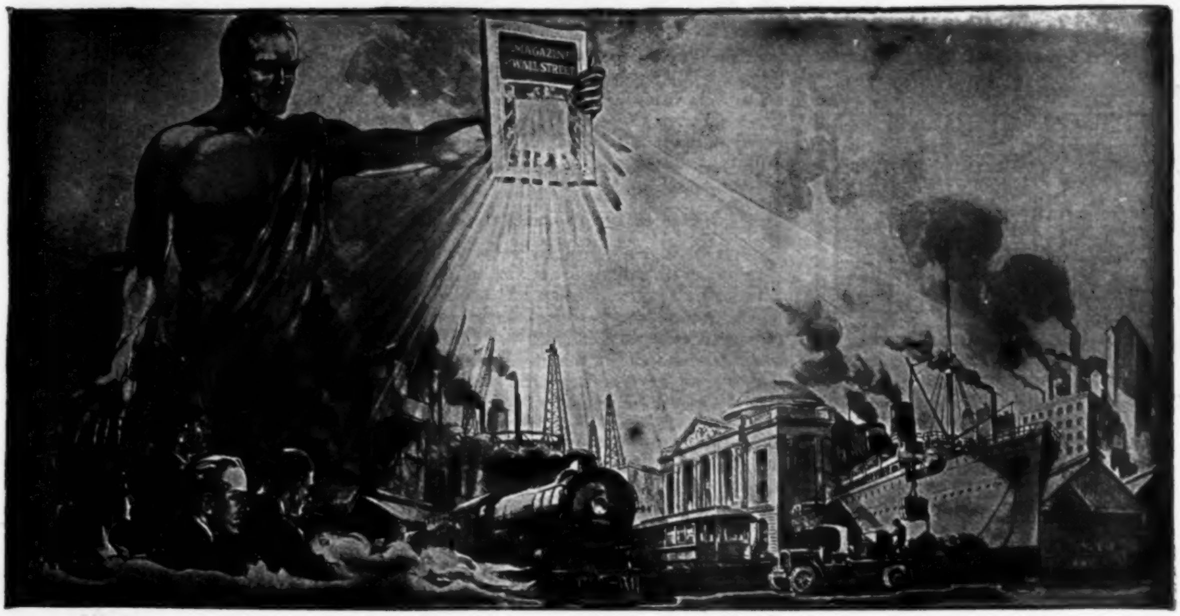
LOOKING INTO 1922



The Outlook for Money Rates and Volume of Trade

General Trend Upward—What Will Happen to Foreign Exchange?

By H. PARKER WILLIS

EXPERIENCE during the past two or three years has impressed upon industrial prophets the necessity for conservatism and for the avoidance of hasty predictions. Nevertheless, at the year-end it is essential to take some account of stock and to endeavor, in at least a tentative way, to foreshadow the lines that are likely to be followed during the coming year in business transactions. Fortunately, the close of 1921 affords some clear evidences which may be relied upon to point the way to our probable course during the twelve months now about to open.

The Banking Situation

Fundamental in all estimates of present and future conditions is undoubtedly our banking situation. The year 1921 has been a time of trial for banks as for other businesses, but they have responded with courage and success to the demands made upon them.

At the close of the year, our central banking mechanism, the Federal reserve system, is in what appears to be an impregnable position. It has successfully financed a year of contraction and deflation and has raised its reserve holdings to the wholly unprecedented sum of near $3,000,000,000, largely gold, while it has cut down its unliquid assets to a point where they no longer afford any ground for anxiety. Its reserve ratio is near 75% and its capacity

H. PARKER WILLIS

"Financial prospects for 1922 are favorable although . . . extent of the improvement depends on factors whose scope is yet to be determined."

to finance business in any probable circumstances is unquestionably in excess of what is likely to be demanded.

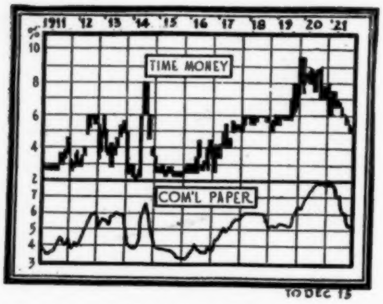
The rank and file of the banks of the country are also in a strong position. While there are "frozen loans" in many parts of the country, notably in some of the agricultural sections, they are not present in an amount which should give ground for anxiety, and the situation affords good reason for expecting that they will be successfully disposed of in no distant future.

Growth of Credit

Reduction of rediscount rates at Federal reserve banks to 4½%-5% has brought the cost of this form of accommodation down to a level which is certainly exempt from criticism based on the ground that it represents too high a cost of money. A corresponding decline in commercial and investment rates has not been directly due to the change in rediscount charges, but is rather a simultaneous effect of a common cause. The improvement in the quotations of Liberty bonds and of other strong securities which has carried them well back toward their former levels is evidence of returning belief in the earning power of enterprise and in the capacity of business to draw upon the market for funds as it requires. **These good conditions may be expected to continue during the coming year.**

Interest rates have evidently not

reached their lowest level, but may be expected to move still further downward in the not far distant future. A correlative development will undoubtedly be found in the further advancement of values of the best securities.**

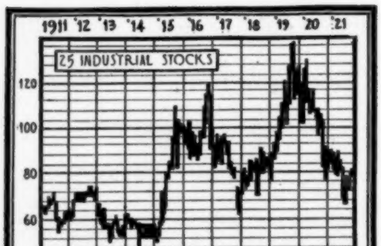


The year 1922 should be a time of restoration of investment values and of dividends, and while it is too soon as yet to predict the precise extent in which, or the date at which, such changes will occur, they should not be very greatly postponed but should be characteristic of the year's early progress.

It is always possible, of course, to impair or shatter by unwise public policy, sound prospects of improvement, and such may possibly be the experience in this case. The adoption by Congress of unwise methods of taxation, either for the purpose of paying bonuses or for some other object, would be disastrous to both Governmental and private credit. But there is, at the present time, no assurance that such a tendency is to be feared. Financial prospects, therefore, for 1922 are favorable, although the precise character and extent of the improvement depends upon factors whose scope is yet to be determined.

Buying Power of Public

One of the most notable and most regrettable phases of the post-war

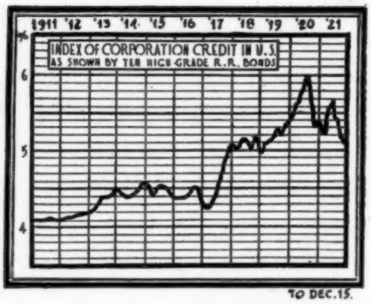


financial situation was the falling off of investment demand on the part of the public. The tremendous overload of tax exempt Federal and State securities which had resulted from the war made it hard for legitimate business enterprises to get proper access to credit, and threw nearly all business into confusion in so far as it was dependent upon new capital.

A striking development of the year 1921 has been the success in pushing Government securities out of the banks and into the hands of the public, while the public itself has succeeded in no small measure in absorbing and digesting these securities. One outcome has been the great rise in the value of the public securities of all classes, amounting on the average to from 10 to 12 points. **This is symptomatic of a great change in the investment position of the public as respects Government securities, and in consequence a great difference in its general attitude toward all securities.**

Advance in Investment Values

Such changes are seen reflected in the general advance in investment values of all classes which has occurred in the past few weeks. Decided increase in the prices of all good bonds has been shown in the investment index whose development has been followed in these analyses for some months past, and such increase has been exceptionally significant in recent weeks. Demand has shifted from Gov-



ernment issues to sound railroad bonds and then to industrials, taking in too from time to time the best of the foreign Government and municipal bonds.

The growth in the buying disposition of the public is now gradually extending itself to dividend-paying preferred stocks and bids fair to continue, gradually spreading through the whole list and taking in the more speculative industrials at a later date.

All this promises well for the future of the public's interest in stocks and may be expected to continue throughout the coming months. There is as yet no indication of any return of the speculative fever of 1919, for the conditions of inflation and "booming" then prevalent are now absent. On the whole, therefore, the future outlook in speculative fields is hopeful and more wholesome than for a good while.

Access to Capital

As a result of the better interest and investment conditions the access of business enterprises to the capital they need has decidedly improved, supplies of funds being both cheaper and more abundant. The situation is well illustrated by the absorption of the large volume of equipment certificates held by the Treasury and which Congress had been asked to cash for the benefit of the roads, in the so-called "railroad funding bill." Without awaiting the adoption of any such measure, the market has absorbed a substantial quantity of these securities and other forms of offering have likewise been better received.

The attitude of the public toward public utility securities as well as to other representatives of investment has also notably improved. All this indicates a prospect of marked improvement in 1922 with regard to the legitimate expansion of business through the use of new capital.

Increase of Production

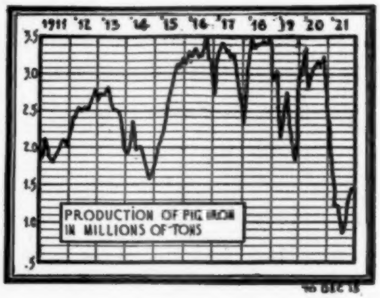
The closing months of 1921 have shown a very gratifying increase of productive capacity, and a lessening of unemployment.

The line of growth in the steel industry, after suffering from depression for a long time past, has at length turned upward, and may evidently be expected to maintain its more encouraging trend. The same is true in other metal industries.

Agriculture has had a successful year, in so far as quantity of output is concerned, in practically all lines except cotton, even though the prices that have been realized by the producer have not been as good as had been hoped.

Manufacturing industries are, in some cases, now nearly normal, this being notably true of the textiles, while conditions in the leather trade are certainly improved even if not satisfactory.

Other basic lines of business report a percentage of normal output as having been obtained which is far better than for some time past. In view of the increasing absorption of surplus stocks, it would appear probable that this growth of output will continue during the coming year. **Full demand will necessitate the restoration of foreign trade, a problem which is as yet far from reaching a solution. Domes-**



tically, however, the restoration of productive power holds out an encouraging prospect.

Price Levels More Normal

This situation has been greatly helped by an apparent stabilization of prices, at least for the time. The index number chart shows, for the past two months, substantial stability with slight upward tendencies. This is due to the fact that our business has in at least a reasonable degree, adjusted itself to the new price and productive conditions ensuing upon the collapse of the post-war boom. **The greater stability of prices has been extremely helpful to industry, since it has given**

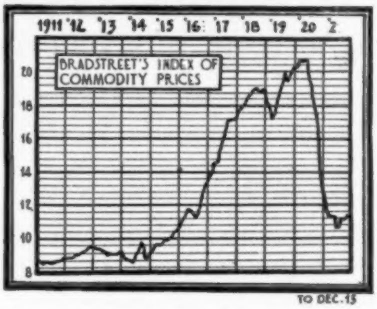
business men better assurance and has thereby enabled them to make "forward contracts," without the danger of heavy loss between the time of obligating themselves and that of filling the orders. **In foreign countries, no such stability of prices has been attained, due to their disordered banking and currency systems, and the United States is, therefore, given a very decided advantage in its future business relations because of the possession of a stable medium of exchange in which to measure its transactions.**

It is not true, as alleged by some, that the possession of such a stable medium places it at a disadvantage in international trade. High prices and excessive costs are, of course, always a handicap in competition, but business would suffer a much more severe handicap if its values were to be based upon an unstable medium of exchange. We may reasonably expect a fair continuance of price stability in the absence of new and disturbing conditions not now foreseen. This should greatly conduce to the free interchange of commodities during 1922.

If foreign countries can to some extent stabilize their price levels it should also greatly facilitate progress in international trade. Some of the more prosperous countries are already making a fair amount of progress in this direction. Changes in prices which are still in sight affect chiefly a few industries in which price readjustment has been resisted, and in which therefore progress has been slower. In these, an accommodation to levels of value established upon a new average basis must take place, and is to be expected within the early future. This will involve the advance of some prices, and the further depression of others, but probably without a material effect upon the average level of wholesale values, although retail prices in various lines will probably move further downward.

Exchange Conditions

Reference has already been made at one or two points in this review to the question of foreign trade and foreign



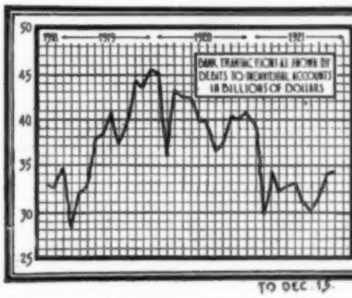
exchange. The experience of the past year has been unfavorable with reference to exchange largely because of the fact that suspension of credit allowances on our part had tended to unsettle the basis of financing and to give our relations with foreign countries an unstable foundation.

The question how to restore exchange to a fixed level is one of the most difficult features of the present business situation and unfortunately we can hardly hold out much assurance for the coming year with respect to the correction of present evils. The proposal to hold international conferences for serious study of the whole problem is hopeful, and the announced intent to modify the German reparations settlement is also encouraging. It is, however, clear that as yet no definite plan has been evolved for the correction of conditions and that there is no ground for thinking that, even if one had been so developed, it would necessarily be so successful. Budgetary conditions in foreign countries are closely intertwined with the exchange question and the latter cannot be dealt with effectively in the absence of some settlement of foreign Governmental credit problems. **This is in itself a long affair and it would be strange if there should be more than very moderate progress toward better conditions in the future.**

The fact that the subject has at last been given some serious consideration by the various Governments is, however, encouraging and should assist materially in putting the financial community at least in the way of a better state of things.

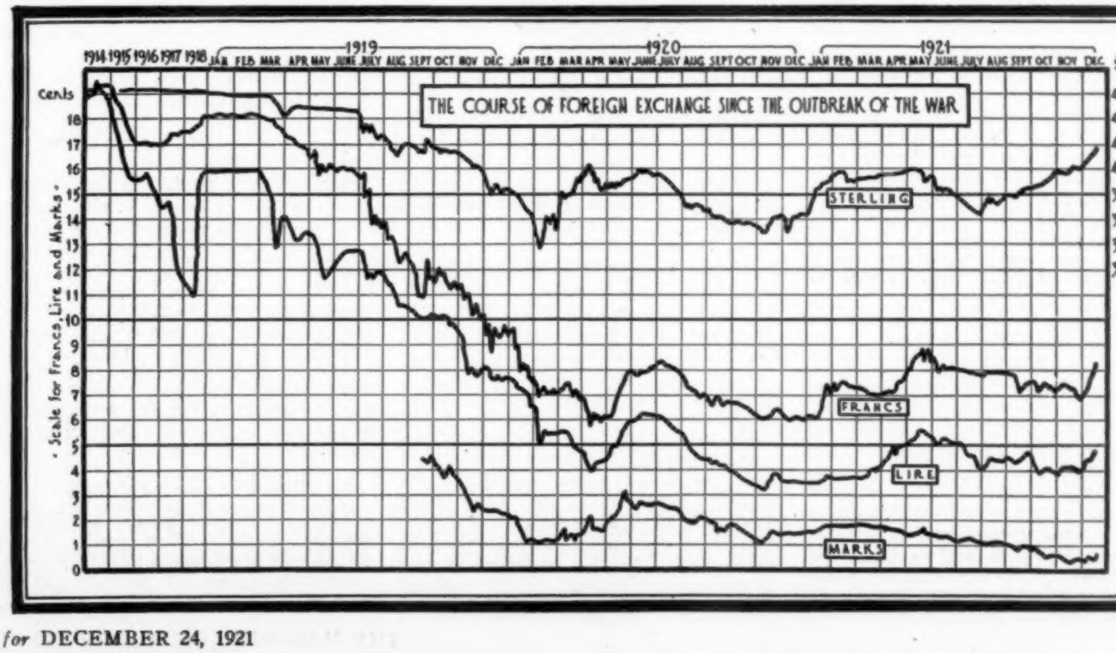
Activity of Trade

Meantime the activity of domestic trade continues to expand, as indicated by two excellent indexes—the turnover of stocks in retail establishments of large size and the turnover of bank credit as shown by figures indicating debits to deposit accounts. Both these indices point to a very marked restoration of retail trade demands. They may be expected to reveal a still further growth owing to the fact that unemployment is now declining and that goods are moving at many points where there has been stagnation in recent months.



Retailers' stocks have been largely reduced and, in the agricultural districts particularly, there is better buying power than for a long time past. True, in some of them failure to realize on crops as handsomely as had been

(Continued on page 279.)



A Forecast of the Stock Market for 1922

How Prices Have Moved in the Past—Where the Market Stands Today—The Future

By **RICHARD D. WYCKOFF**

WHILE the accompanying graph gives an excellent idea of the present position of the stock market, a few comments may aid some of our readers in their interpretation of the probable course of prices. Let us therefore go back over the fluctuations of the past ten years, and see what basis we can find for a forecast of the coming year's activities.

Our graph begins with the fluctuations of 1912, and from that year until 1917 inclusive we find only vertical lines indicating the high and low for the twenty-five rails and the twenty-five industrials separately plotted on the same graph. Beginning with 1918 and continuing toward the close of 1921, we have plotted these in the form of monthly highs and lows. This permits of more careful study.

During the past four years we have combined the average prices of twenty-five rails and twenty-five industrials in what is known as a "range chart," indicated by the irregular white space between the rails and the industrials; thus each of these three groups may be observed both separately and in their relation to the others.

The Course of the Rails

First let us take the rails and trace their course from 1912 to date. The fluctuations of that year were small indeed and anyone who recalls that period will remember how this long interval of dulness reduced the money making possibilities in this group. There was a tendency to sag, growing into a comparatively weak market in 1913. Some rallies followed in the next year, but in July came the war panic and prices reached their extreme low of the movement.

The recovery in 1915 and 16 was of such limited extent as to indicate that something was still ailing the carriers, and the climax came in the threatened general bankruptcy toward the end of 1917, at which time the government was forced to assume control of the railroads. After struggling along under Federal control, the price of this group edged slowly upward until the cessation of the war, and during the following year slumps and recoveries alternated until, in February, 1920, the rails reached the lowest point of many years. Another recovery late in 1920 was followed by still lower figures in August, 1921.

Since that time, notwithstanding greatly improved conditions in the railroad world, the recovery in proportion to the previous decline has been comparatively small. That is, from a high average price of about 97 in 1912, the decline ran 50 points to 47 in 1921, but the recovery has only reached approximately 56½, or about 9 points—less than 20% of the ten-year decline. **Viewed from this standpoint, therefore, there is still evidence of much weakness in the railroad situation. It is being overcome, but slowly.**

From another point of view many railroad stocks must be regarded as bargains. A look at the graph seems to convince us that if we do not buy the best rails while they are down in this low range, we may be obliged to wait a long time before the opportunity will be repeated. Such reasoning is, of course, from the standpoint of price fluctuations and does not take into account the vast changes in conditions affecting the railroads, which have developed during the past decade. It does not take into account the heavy labor cost, the damage wrought by government control, or what is most important in the eyes of many of the eastern systems, the exhausting competition of the motor truck.

Among the issues used in making up this average price for twenty-five railroad stocks, we find numerous high-grade divi-

RICHARD D. WYCKOFF

"The important point is that prices have evidently turned upward for the long trend"

dend payers only partly recovering from the siege of the past few years; stocks like Union Pacific, Canadian Pacific, Delaware & Hudson, and others which formerly sold scores of points higher while some of the high-priced rails of former years are threatened with, or undergoing, or recovering from receivership.

In all these considerations due regard must be given to the fundamental changes which the rails have undergone or are likely to encounter. There are factors such as possible consolidations, changes in rates and wage scales, growth of the country, competition of the motor highways, etc., all of which have an important bearing on the future market values of these shares. Another important element is the present ownership of the railroad stocks; this rests in the hands of the small American investor. Most of the great blocks of leading railroad stocks formerly held by the dominating interests in the railroad world and by the great estates affiliated with them, have long since been split up into lots of one to fifty shares. Few leading capitalists have ventured to reaccumulate their former large holdings, for the simple reason that they can employ their funds in other directions with greater profit possibilities and fewer dangers.

The Industrial Group

Here we have an entirely different situation. Beginning with the narrow 1912 market, industrials declined 27 points to the low figure of the 1914 panic. To this point they have never since returned. Within two years thereafter, the industrials rose 72 points, or 150% of their 1914 low figures. In common with the rails they declined in 1917, registering a higher supporting point at about 62½. From this level there was an important recovery in 1918; then a steady climb to the highest point ever recorded by this group—138 in the year 1919.

We all recall clearly what has happened since. The two-year bear market which began at that time culminated with August, this year, in one of the most severe declines that the market has ever suffered. It was severe because of the great height from which it fell—71 points.

From the low point in 1914 to date, the principal movements have been as follows:

A rise from 48 in 1914 to 120 in 1916—72 points.

A decline to 63 in 1917—57 points.

A rise to 138 in 1919—75 points.

A decline to 67 in 1921—71 points.

Violent fluctuations these, and characteristic of the vast changes in earning power, equities, cash and stock dividends, as well as the depressed business conditions coming after the war—a sort of stock market spree from which we may expect these industrials more or less to settle down. Nothing in the present situation seems to warrant a repetition of the time when Bethlehem Steel and General Motors ran up several hundred points. There will, of course, be market factors of prime importance growing out of the recovery in business and numerous stocks now selling at low figures should, within the next year or two, advance to a point where they will materially affect the average prices. **But we venture to predict that the range of the industrial stocks is more likely to keep within more conservative bounds during 1922, than to equal the average figures made in 1916 and 1919—two years out of the last ten.**

The Combined Averages

These are valuable because they indicate the core of the market's trend. It will be observed how contrary have been simultaneous movements of the rails and industrials at times: in 1919 while the indus-

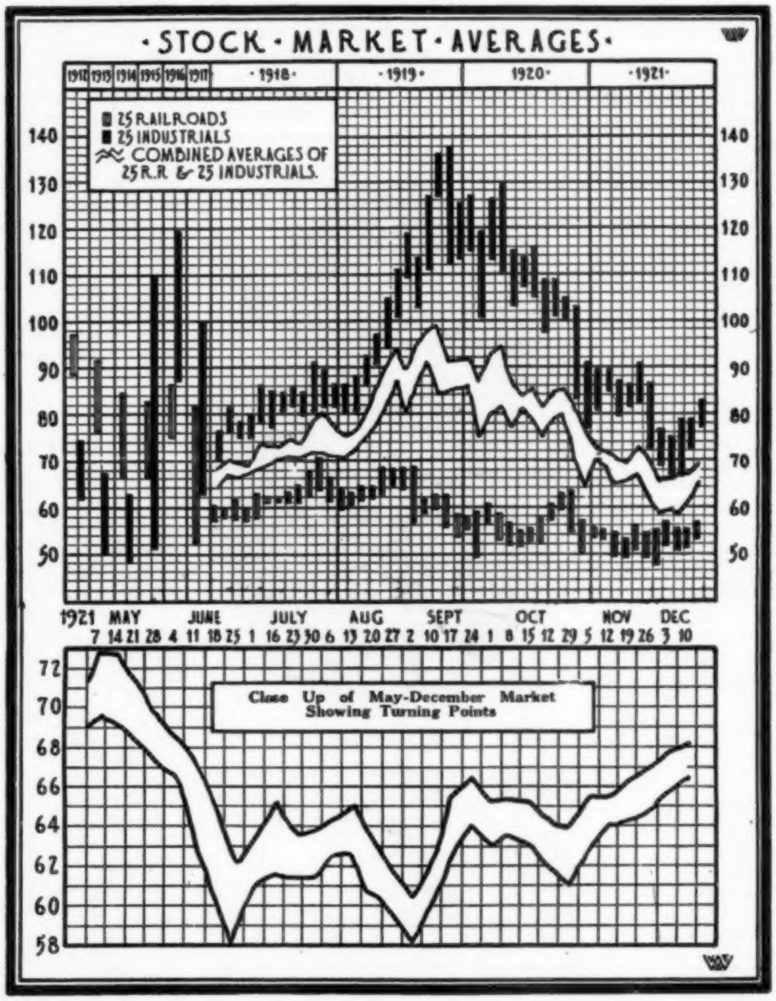
trials were soaring, the rails rallied poorly and went to new lows. In 1920 industrials declined heavily, while the rails worked up to their highs in November. In the early part of 1921 while the industrials were recovering somewhat, there was small response in the rails; and in the final market crash of August, the rails went down very little.

The average movements of the fifty stocks split up into weekly movements and presented herewith, also form an interesting picture. We find a succession of drives and rallies which temporarily ended with the low point made during the week ending June 25th, at a price close to 58. There was a two weeks' recovery and a decline the following week; later another recovery, not quite so high, in the week of July 6th; then a steady decline until the final low point was reached in the week of August 27th, just a fraction above the June low.

To all intents and purposes the market in June and August made the well-known double supporting point which theoretically is an excellent foundation for a change in trend. The recovery from that point was rather sharp for the succeeding three weeks, reaching to about 67. This being a higher point than that of July 9th, it formed a second confirmation of the market's ability to lift itself away from the low levels and to begin its journey toward the culmination of the bull market which should naturally follow, assuming the low point to have been passed.

The real test came in the succeeding weeks which were punctuated by many bear raids. However, the bears were unable to drive these average prices of fifty stocks below 61½ which was recorded during the week of October 22d, from which time the trend of prices has been steadily toward a higher level. The setbacks have been small and rather brief. The volume of trading has tended to increase on the advances and shrink on the reactions—always a good sign.

As suggested in a previous article, money is now flowing from banking, commercial and agricultural channels into the security markets. The reservoir holding the supply of money is steadily being emptied into bonds, preferred and common stocks.



Where the Market Is To-day

If it be true that the market has turned upward, and there is every evidence that it has, we may consider that it is in what we have defined as the marking-up period, there being three stages in every bull market, namely: (1) accumulation, (2) marking up, and (3) distribution. It is characteristic of this stage that what is known as the big speculative public does not participate. Investors come in with real money and lay the foundation for the advance by absorbing the floating supply of securities, which remains after the big accumulation by large interests has been completed; but there is no great amount of speculation at this time. The movements which we are now witnessing indicate attempts of large operators to anticipate that period in the future in which general business will attain a prosperous condition and the public will have excess funds with which to trade.

A large part of the speculative public is either bearish, doubtful, hesitant, or has no money with which to operate. This leaves the course clear for those who are influential in the security markets. It is much better that prices should more or less be so controlled. Take the case of a stock now selling at 50; if there were something which six months from now would make it worth 100, there is no reason why it should be held down or permitted to stay down if some group of men have foresight enough to anticipate its being worth 100 in due course. A jump from 50 to 100 within a few days would be an unhealthy thing for the stock and the market, but a gradual approach to the objective point is most desirable.

While a study of the course of prices is interesting and instructive, a thorough knowledge of the condition of the various industries and their tendencies is even more important to those who wish to benefit by the periodical ebb and flow of security prices. It is well, however, that no matter how one arrives at his conclusions, he keep before him a map, or as it is known in Wall Street, a chart, which will indicate whether prices are in the Buying Zone, or the Selling Zone, or in that more expansive area where prices are in what we have designated as "No Man's Land," meaning the interval between the day when it is time for the long pull operator to buy and the day when it is time for him to accept his profits, replace his money in the bank, and await another similar opportunity.

Forecast For 1922

Indications for the coming year are that the average price of 50 stocks, which, as this is written, stands at 68, will work up to between 80 and 90; but I should prefer to take a conservative attitude in view of the fact that the high average prices of the 50 stocks were made under the stimulation of the great rise in industrials during 1919.

Such a rise should be greatly aided by a recovery in the rails, many of which are now in a strong position. We are evidently in a period when railroad dividends will be inaugurated, resumed and increased. In view of the vast amount of these holdings, this prospect should be gratifying. It may be that this influence will carry the averages above the figures I have mentioned, but nothing at present seems to justify any expectation of the averages getting above the 90 mark.

Forecasting is a risky undertaking, however, and I trust my readers will bear

(*Continued on page* 281.)

Will Commodity Prices Go Higher in 1922?

How Industry Is Likely to Fare—The Future of Supply and Demand

By E. D. KING

WITH the year practically at a close, the curtain is drawn on one of the most important and interesting periods in the history of economic development. During this period, events of major importance have transpired both with regard to the economic and political substructure of the world. The changes which have occurred have been of vital significance and must inevitably produce a profound and far-reaching effect on international and domestic trade conditions.

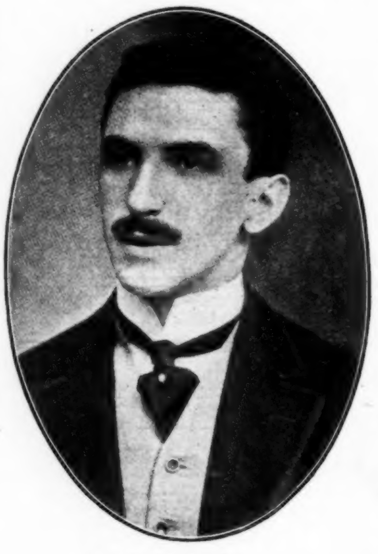
Briefly, the year 1921 was a year of transition from a period of almost total demoralization in commercial activity occasioned by the sudden and paralyzing effects of the drastic deflation which commenced to prostrate business early in 1920, to a period in which new elements of stability have already begun to manifest themselves. In retrospect, the year 1921, while marking the end of one of the most serious debacles in the history of world commerce, was also the beginning of a period which seems to herald the gradual restoration to a condition of stability and prosperity.

From many directions come proofs of the changing character of the underlying economic situation. While depression still exists to a pronounced degree in many fields of industrial endeavor, in very few instances, at least in the United States, are conditions inferior to those existing at the beginning of 1921. **Since last Spring, the character of business conditions have been changing, imperceptibly at first but now rapidly enough to afford a conclusion as to the actual trend —and that trend is upward.**

This conclusion has been reached through observation of many factors operating on the general business situation. There is not room here to enter a detailed discussion of even the principal underlying factors, but it is of importance at least to know what they are. The principal contributory causes of the actual improvement in United States business conditions which are already observed in operation are the following: the increasingly rapid rise of consumption over production which consequently must involve added production and greater business headway when further progress has been made with regard to the elimination of surplus stocks; the vast improvement in the banking situation, principally a result of added gold holdings and the gradual liquidation of indebtedness on the part of the various industrial and agricultural interests throughout the country; the greater stability of the price structure, as witnessed by price movements during the latter part of the year; the lower cost of credit and its greater availability; the partial liquidation of labor and the ensuing lower operating costs in many industries; and finally a spirit of greater optimism in business circles, without which no true progress can be made commercially.

The combined weight of these important factors has thus been thrown on the constructive side and the fact of their increasing momentum validates the conclusion that ensuing developments will be equally, as favorable.

There are, additionally, factors which have not yet begun to operate but which are just beginning to make their appearance and which will inevitably exert a profound and beneficial effect on international trade conditions. Among such are the far-reaching steps being taken by various governments, either individually or through concert as at Washington, to improve the international financial situation. Carried to their logical conclusions, these important efforts should result in lowering Governmental expenditures and thereby the present heavy rate of taxation,



E. D. KING

"Business men can enter the new year in the belief that the majority of their business troubles are over"

with an ultimately ameliorating effect on business. Considering that the current heavy rate of taxation is one of the most serious obstacles to a resumption of trade on a large scale, the importance of the Washington Conference and other financial and economic efforts toward adjustment of world problems, cannot be over estimated. Partly as a result of the above and partly as a result of already improving conditions in individual countries, exchange rates have made considerable progress toward regaining a greater part of their old-time value. The exchange problem has been one of the most baffling to contend with during the past two years, and the improvement which has recently come into effect should eventually do a great deal toward restoring equilibrium to the world trade situation.

Thus, the year 1922 is entered with the economic scenery considerably different from that existing at the end of 1920. While the effects of past conditions are still operating to the detriment of many business interests and while we are far from the ultimate goal of true economic stability, sufficient progress has already been made to indicate that the foundations of business are slowly being made stronger and that the outlook for 1922 is decidedly more promising than was the outlook for 1921 when we entered that year.

On that basis, the task of estimating the possibilities for the various industries becomes less difficult. Inasmuch as the general situation is improving and a greater measure of stability is being attained, broadly speaking, individual industries cannot help but be favorably effected, although, obviously, conditions within each industry will be the determining factor as related to that particular industry.

The law of supply and demand remains the governing factor in business and consequently an estimate as to the probable future condition of any industry will involve an estimate of this factor and this in turn involves analysis of the present statistical position of the industry, including existing stocks, potential and actual operating capacity, price levels, competitive conditions and various other factors which exert a controlling influence on business conditions.

One of the determining factors and possibly *the* determining factor in the business outlook for 1922 will be the price of agricultural commodities particularly corn, wheat and cotton. There seems little reason to doubt that the broad tendency of cotton prices next year will be upward. Nor is there much reason to fear much lower prices for wheat. The corn situation remains the most involved one. The price of corn should be a good barometer of business conditions as it is the very low price of this commodity that has so largely curtailed the buying power of the agricultural masses. Probably no one factor had as much to do with the unfavorable operating conditions of the mail-order houses as the price of corn.

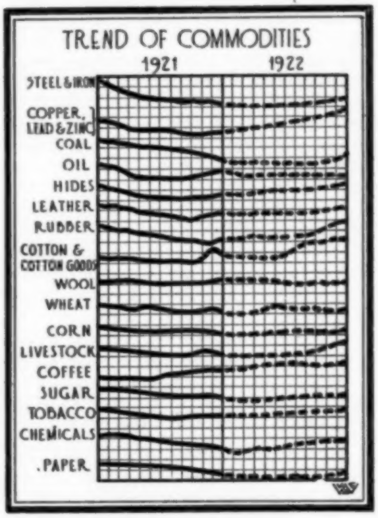
Left to its own course, it is possible that the price level of this commodity might not vary greatly from the existing one. However, with the financial aid extended to corn growers through the agency of the War Finance Corporation, the necessity to sell at current low levels has been greatly modified and it is altogether likely that this will ultimately result in advancing the price of corn thereby restoring at least a part of their former purchasing power to large masses of the agricultural population.

The release of this large purchasing power may be expected to react very favorably on all interests directly and indirectly dependent on agricultural prosperity. The price of corn therefore should be watched with unusual interest from this time on and any important upswing in

prices should be regarded as a practically certain sign of improvement in general business conditions.

The Price Level

There are sufficient facts to warrant the assumption that the price of commodities in 1922 will not be downward, to put it negatively. On the contrary, the price



situation should be somewhat the reverse of that existing during the earlier part of the current year when the trend in this respect was distinctly downward. *Most of the principal commodities, some time during 1922, should reach a higher level than that reached during any time this year.* This conclusion is supported by the fact that surplus stocks have been largely removed in many instances and by the fact that purchasing power at least potentially is increasing owing to the greater rate of employment.

The attached graph on commodity prices is merely a pictorial effort toward describing the price trend in 1921 and the probable future trend in 1922. It will be noted that in the majority of instances the projection into 1922 reveals an outlook for higher prices, and in not a few instances a higher level than that obtaining at any period during 1921.

Commodities which are practically certain to advance to higher prices some time during 1922 are the following: nonferrous metals, hides, leather, rubber, cotton and cotton goods, livestock, coffee, tobacco and chemicals. It is always difficult to predict in advance what the price of wheat and corn will be, owing to crop exigencies, but even here it is almost a safe venture to prognosticate a rising scale of prices probably at the end of Winter. While the outlook for a higher steel market is not promising the probabilities are that prices will soon stabilize themselves and that with the end of Winter the tendency toward a lower level will evaporate with the better business that is bound to come about.

Coal prices should probably stabilize themselves at current levels with an outside possibility of an advance, especially in the event of a major strike in the industry which may come about next Spring. It is improbable that oil prices will advance much beyond present levels as they are already out of line with prices on most commodities. The outlook for higher wool, sugar and paper prices is not particularly promising outside of artificial measures, but these commodities will probably reach a measure of relative stability around current comparatively low prices, although in the case of newsprint, further foreign competition might result in a still lower level.

The Trend of Industry

Analysis of the attached chart on the trend of industry reveals an almost uniformly promising outlook. With the greater demand brought about by improving world conditions, the prospect is that industry, in general, will advance to a higher rate of operations than that reached any time during 1921. With allowances for the usual seasonal variations, particularly in such industries as tires, automobiles, oil and coal, the trend is upward.

Of all the industries, building seems in the most favorable position. The lower cost of materials and labor combined with the genuine need for new housing facilities has already given rise to a considerable advance in operations and this will be continued on an even higher scale during 1922. Automobile and tire manufacture should also show a considerable increase next year, although the bulk of the increase in automobile manufacture will probably be confined to the three or four principal makers of low-priced cars.

The textile, machinery and leather trades are in a favorable position and the trend should be gradually upward. Steel and iron production which has already shown a tendency to increase should rise to still higher levels early next year. Production in non-ferrous metals such as copper, lead and zinc will slowly rise, although in copper, the trend should be very moderate until further progress has been made with regard to the elimination of surplus stocks. Coal production which is relatively low should show an increase while oil production should stabilize around these levels. The trend in tobacco manufacturing, particularly cigarettes, is upward and 'sugar refining will benefit from the low price of raw sugar. The trend in paper production is upward. The mail-order houses will profit later on from the inevitable improvement in agricultural conditions. Chemical concerns, particularly manufacturers of fertilizers, should find conditions greatly improved over those existing in 1921.

It is, of course, impossible to predict a year in advance what will happen in trade and industry. A sudden and unexpected cataclysm would as suddenly alter the entire prospect. However, based on present conditions and conditions which may reasonably be expected to develop, the chances are that the above conclusions will not be found to vary greatly from actual conditions next year. As a tentative guide toward future conditions, business men will probably find this study not to be without value and very likely the above conclusions are probably supported by their own views on the subject.

Conclusion

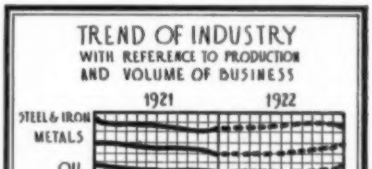
It is obvious of course that the above conclusions are to be interpreted merely as broad statements covering industry in general. No attempt has been made here to cover the prospects for any individual company nor is such intended. It is altogether within the realms of possibility that where an industry may be on the verge of recovery a particular company or several companies in that industry may not profit at all from the improvement. That may be due to special factors not at all pertinent to the industry in question. However, the strongest and best financed companies should and probably will profit greatly from general improvement.

During next year there will undoubtedly be intense competition and the outlook is that many of the smaller companies will go out of existence or be taken over by the larger interests. Additionally with the prospect for ardent foreign competition, new difficulties will attend many business undertakings. This is a factor to take into consideration.

The path of industry during 1922 accordingly is not at all likely to be entirely set with roses.

However, the year 1922 promises to be a continuation of the present transitional period with the underlying situation growing steadily stronger until probably by the end of the year a genuine measure of prosperity will have been reached. It is doubtful, of course, that the volume of business will at any time next year reach the enormous volume of the war-years, but it should certainly be larger than that of last year. The conclusion, therefore, is that business conditions during 1922 are likely to show steady improvement from which practically every industry should benefit.

Considering the situation a year ago and comparing it with that today, we should be thankful. Business men can enter their new year with real justification for the belief that the majority of their business troubles are over. Broadly



speaking we are in the beginning of an era of prosperity which within a few years may even exceed that of the period during the war.

“What I LooFo

Bankers and Executi ive
for Readers of T agaz

CHARLES M. SCHWAB
President, Bethlehem Steel Corpn.

CHARLES M. SCHWAB, OF THE BETHLEHEM STEEL CO., SAYS:

In my opinion reduction in freight rates with such wage revision as will be necessary for that purpose and revision of taxes to encourage investment in productive industry are necessary to stimulate business revival.

Employer and wage earner alike must bear burdens of readjustment, and progress in coming year depends on how readily we accept the sacrifices both must make.

My faith in eventual return of unparalleled era of prosperity has never been shaken.

COMPTROLLER CRISSINGER, OF THE U. S. TREASURY, SAYS:

There has perhaps never been a time when industrial business and economic conditions throughout the world depend so greatly as now upon the development of political conditions. For this reason the fortunate turn which has been taken under the guidance of American Administration in the developing political conditions of the world gives a true index of the general business situation. Almost instantly upon the recognition that the conference on limitation of armaments was to be taken seriously by the powers of the world and was destined to accomplish a great achievement for human welfare, there was a manifest reaction in important business and financial conditions. That improvement has continued and developed almost precisely in the measure of day by day confidence that substantial and lasting results would come from the conference.

At the moment of writing, it is apparent not only that the conference in Washington is insured of a great accomplishment, but that the long continued efforts on the other side of the Atlantic for a permanent settlement of the Irish problem are also to be crowned with success. I regard it as quite within sound reason to say that if the conference in Washington shall bring forth a project of restricted armaments and better national understandings which will make possible an early reduction of the burden of taxation throughout the world and if the negotiations regarding Ireland shall produce equally fortunate results—then the world will be justified to a degree that it has not been in many generations to look forward with hope and confidence to a new and better era in which there will be guarantees against war and assurances of the progress of peace and civilization.

Our own country with its vast expenditures on military and naval establishments and with its intimate concern about the problem of Ireland and world conditions and also as the greatest creditor nation in the world, is sure to be the one that will first reflect the better conditions certain to result from the accomplishments I have suggested. Already this reflection has greatly brightened our business outlook. We are manifestly through the most difficult part of the deflation period. We have come through it without disaster, and we stand on the threshold of a new day, confidently looking to a future in which we see the brilliant promise of advancement to new accomplishments, an increasing importance and participation in the world's affairs such as has seldom come to any country. I look forward to 1922 as assuredly marking the upward turn in American affairs and as in all probability marking also the beginning of restoration and secure rehabilitation to the rest of the world.

GOVERNOR HARDING, OF THE FEDERAL RESERVE BOARD, SAYS:

There are well defined cycles in business. We have the short and frequently recurring cycles incident to the changes of the seasons and all history shows that there are longer swings or periods of prosperity and depression, the rotation being about as follows: (1) Business activity and increasing production, (2) Excessive expansion and speculation, followed hitherto by panic and forced liquidation, (3) A long period of slow liquidation, business depression and stagnation, and (4) Revival.

There are many indications that the beginning of revival is not far distant. When it does definitely set in, it will be followed in due course by a new era of prosperity. While the losses during the past two years have been great much experience has been gained and while experience is not transferable, except perhaps to a limited extent, the present generation of business men has several years of business activity ahead of it.

In the light of this experience, we should remember, when we again enter into a period of full prosperity that a reaction will follow sooner or later and if the flow of the incoming tide can be controlled so that the crest may not be reached too rapidly nor rise too high, the subsequent reaction will be less severe and the next period of industrial and commercial activity and general prosperity will be marked by saner methods, greater achievement along constructive lines and by a longer duration than any which we have had before. We should not forget that the ebb of the tide is always equal to the flow and that the ebb in the Bay of Fundy, where the tide rises highest, is far greater than in safer harbors where the tidal fluctuations are more moderate.

PRESIDENT CHARLES S. KEITH OF THE CENTRAL COAL & COKE CO., SAYS:

All business concerns will write their own history for next year with no two

FRANK BAILEY
Vice President, Title Guarantee & Trust Co.

in effect alike. Those industries which were stimulated by war probably have a long period of depression ahead of them while others that were retarded by war will have the opposite conditions.

As relates specifically to lumber: Both lumber production and supply in the United States are short approximately twenty-seven billion feet. The demand for housing and delayed demand for general building, as translated in building permits and in dollars for first 10 months 1921, are greater than any previous year; and as translated in demand for lumber have had the result of reducing stocks in the United States to approximately one-half of what they were a year ago. As a result of this, since August 1, prices have responded so that they reflect an increase of 35 to 40% at the mills. It is our opinion that 1922 will see lumber values at an average of $10 higher than 1921 with a demand in excess of productive capacity of the nation.

oo For In 1922”

ecutive Views on Outlook
of Magazine of Wall Street

WILLIAM FELLOWES MORGAN SAYS:

I believe that business will improve during the coming year. The processes of reorganization and deflation are now so well advanced that they are practically finished. Present prices warrant normal purchasing. The revision of the tariff and tax laws still leaves some uncertainties, but the great reduction in appropriations brought about by the application of the National Budget System and the decrease in the demands for naval and military establishments which will result from the Conference on the Limitation of Armaments should release capital that is now tied up. I am convinced that business will be justified in taking an optimistic view of the future and that although the return of prosperity may be slow, it will be sure.

WILLIAM FELLOWES MORGAN
Chairman, Merchants Ass'n of New York

PRESIDENT ERSKINE, OF STUDEBAKER CORPORATION, SAYS:

The sifting process through which the automobile industry has been passing this year will undoubtedly continue throughout next year. The surplus of plant facilities created during and immediately after the war will not be required to supply the demand for the next few years, estimated at two-thirds or three-fourths of the production capacity of the industry. This does not mean that the total business of 1922 will not exceed that of 1921, which I believe it is certain to do, because of the substantial betterment of general conditions and the improved outlook for export trade. Excluding the Ford business, the volume of the industry for 1921 was less than 60% of 1920. I predict a considerable increase over this percentage next year. Companies with ample facilities for economical production, which offer best values in motor cars, will have nothing to complain of in volume of business.

Our domestic and export markets will easily absorb a million and a half cars per annum, and this quantity may be placed as a reasonable minimum for our industry next year.

SECRETARY TREGOE SAYS:

Forecasting what may happen in 1922 is exceedingly difficult. The difficulty largely rests with complications, which may arise overnight. We have not yet grasped the real significance of the economic debacle, of the depression, and it is our strong hope that all of the thoughtful citizens of our country may contemplate this event as of extreme significance, and furnishing a message which should be heeded in our commercial affairs.

Not until sixty days ago were we satisfied in our own minds that the bottom of the depression had been hit. Not until thirty days ago could we recognize even the slightest improvement.

We are now delighted to say that basically, conditions have improved slightly, and barring the arising of complications, this improvement should continue and be very manifest in the early Spring.

Basic materials should record a very good improvement at the time we have indicated.

The real serious feature at present is the impending economic disaster in Central Europe. This could not happen unless we were hurt by some of the flying missiles. We can not divorce our own career from that of our brothers abroad. It is impossible, and unthinkable.

Concentration of effort should be devoted to this situation; the problem of the entire Allied debts should be considered seriously, yet complacently. We must not expect too much, we must not demand too much, we must, with our great riches, help generously to keep the structure intact, for should it crash down we would be hurt, beyond question.

The increasing reserves in the Federal Reserve Banks and the larger depositories of the country, indicate the husbanding of resources which should be available when business demands legitimate assistance.

Collections throughout the country are more or less complained of, a large number of failures may be anticipated in the next sixty days, but this should not breed concern. It is but natural to expect them at this time.

In the city's department stores there is more or less business; in the rural districts sales are sluggish. In the agricultural district there is more or less distress, and this is a situation which affects the restorative process.

Altogether, with its complexities and the extreme difficulty of forecasting with any degree of accuracy, it is a period for constructive optimism, a time when we must express faith in our country and confidence in the future. To miss these elements is to miss an inspiration which should help us more than anything else to get back to normal, and to play our full part in domestic and international affairs.

W. P. G. HARDING
Governor, Federal Reserve Board

VICE-PRESIDENT BAILEY SAYS:

Nineteen hundred and twenty two will be an interesting year, and will still hold possibilities of great trouble to the financial world. All finance is not based alone upon economic rules, nor from precedents can proper deductions be considered unless the spirit or morale of the people is considered because good morale stands for good and sound finance, and poor morale stands for national bankruptcy.

In this country, I believe that we are drifting towards a better morale. There are three cardinal principles to be observed in studying morale:

First, the spirit of work.

Second, the spirit of co-operation.

Third, the spirit of obedience to authority.

I believe from very direct investigations that in all three of these principles, America is improving.

Now, with the spirit of hate existing in Europe, certainly the spirit of cooperation does not exist. The spirit of obedience to authority is absent because in many cases they change their authority frequently, and authority always does what you ask. The spirit of work is returning in many of the communities, but the spirit of "bunk" still seems to prevail. With no national budget of the great nations yet balanced, with the printing presses still feverishly printing marks, kronen, lire and francs, with the politicians sacrificing sense to votes and judgment to opportunism, Europe is slowly recovering from the war, but its morale has not yet recovered, and where morale has not yet recovered, there can be no progress.

I therefore do not believe that 1922 will be an entirely happy year for I cannot believe that we can be prosperous unless the rest of the world is prosperous. In general, however, the curve of improvement is up, but it will not go up very fast.

What the Administration Has Done—Its Plans
A Statement by Senator France

Has Harding Helped Business?—What the Government's Proposals Are

WHAT has the Administration done for business?

What does the Administration plan to do?

What *might* the Administration do?

These are among the questions occupying the minds of investors and business men toward the close of the year. And they are uppermost questions; for the country has learned how important a part in the industrial trend government now plays.

Harding's Accomplishments

The accomplishment of the Harding Administration thus far in its regime seem, to an unprejudiced observer, to be largely in the nature of first steps. However, it should be remembered that the Administration has only been in office slightly over eight months; that it inherited many tangled and severely perplexing problems; and that, therefore, little more than "first steps" could have been taken from March 4, 1921, to date.

Among the "first steps" has been the movement toward reducing taxes. Here, certainly, it may be said that the Administration has gone far. The way has been pointed to a very sizable reduction in the cost of Government by a virile and resourceful budget commission.

Another "first step," but what is probably the Administration's great achievement to date, has been the Arms Conference. Through this conference what even hostile critics would admit to be the most perplexing problems faced by this country if not the entire world, today have been made the subject of open discussion; and as three direct consequences (1) reduction of naval armaments has been agreed upon; (2) the seething problems of the Far East have been openly threshed out; and (3) a treaty has been signed whose eventual usefulness in the prevention of wars may make it an outstanding document of its kind in world history.

In matters of purely domestic significance, criticism that is allowed to form itself from the results tends to the verdict that President Harding has done much that is admirable toward improving business conditions. Particularly may be mentioned the pressure that has led to constructive action on the part of Government departments and boards; the important steps already taken toward refunding of the Allied debt; the movement to re-establish the Merchant Marine, whose full force may soon become apparent; progress toward reducing direct Government interest in the affairs of private business. Relief extended to corn growers through the War Finance Corporation—a step, by the way, which is expected to result in substantially improving the financial position of this large industrial section; and so on.

Of course no unbiased critic would point to this record as justifying unusual enthusiasm or unstinted praise. On the contrary, it might be easy in some respects to cavil at what has been done. However, a reasoning attitude will take into consideration the complications that have had to be faced and conclude that, judged both by what it has done and what it has tried to do, the administration has proven itself to be on the side of better business and anxious to lend its support to this end wherever possible.

What the Administration Plans

No more authoritative outline of the Administration's plans for the future could be drawn, of course, than that supplied in President Harding's opening address to this session of Congress. There follows a brief summary of the President's recommendations:

Funding and settlement of defaulted interest on foreign loans.

Expansion of the merchant marine.

Permanent tariff legislation.

Farm relief.

Adjustment of freight rates.

Adoption of means to avert labor strikes.

Discontinuance of non-taxable security issues.

By announcing this program, the Administration has, undoubtedly, set for itself tasks of great magnitude. Besides the difficulties inherent to the program itself, there is little doubt that considerable opposition will be encountered, both at the hands of the Congress and from the country at large.

SENATOR FRANCE

Who says, "Prosperity lies in the lap—not of the gods—but of the Government at Washington"

Irrespective, however, of the entire program's chances of success, the point that business men and investors will find most interesting, in it is the fact that it aims directly at relieving the primary obstacles to industrial recovery. It is apparent that the Administration considers sound and healthy business conditions to be of outstanding importance and that its chief energies in the months just ahead will be directed toward this end. Investors and business men will derive encouragement from this attitude.

Just what course the Administration will take; exactly what its treatment will be of the problems it has assumed; these of course, are for the future to reveal. Procedure on a given question is bound to shape itself, more or less, to conform with events and situations at the time the question is taken up. The Administration's procedure presumably, will follow such a line.

Meantime, the impression that is gained both from the administration's record and from its plans for the future is that business throughout the country can count upon the best support that can be given it, with due regard for the limits imposed.

The Views of Senator France

In view of the unusual interest attaching at this time to the program of the Harding Administration, THE MAGAZINE OF WALL STREET sought the views of leaders of thought in Washington, both as to the past record of the Government as well as the methods it should adopt in handling future problems.

At the MAGAZINE'S request, a statement of his opinions on these subjects was prepared for our readers by Senator Joseph Irwin France, of Maryland, one of the most progressive members of the Senate and a man whose record has won him a large following.

In Senator France's statement it seems of particular interest to note, (1) his assertion, in effect, that "only by governmental action can economic normality be restored"; (2) that "there is no fundamental reason for depression while the world stands in such desperate need of raw materials and manufactured goods"; and, (3) his plan for the restoration of stability in the exchange market.

The Senator's statement follows:

Government's Importance Today

"In ordinary times the political factors—political events and governmental policies—exert but a minor influence on business conditions within the United States. They have then little to do with the shaping of the volume of affecting the activity of trade and industry. At such times commerce functions and Wall Street goes its way with considerable indifference to Washington. **But today commerce and the markets are controlled by the political factors, because**

it is only by political—governmental—action that economic normality can be regained.

"We are now in a period of inactivity, of unemployment and of industrial and financial depression which may become more critical, but which might be quick relieved by wise, courageous and comprehensive governmental measures.

"Our banks in the cotton and grain states and in the large industrial centers are filled with frozen assets because of the inability of the cotton and grain producers and the manufacturers to find a market for those products upon which the credits are based. The industrials, the rails and the specialty stocks, such as the oils, are feeling and reflecting the unfavorable conditions.

"The principal immediate cause of the depression is to be found in the startling decrease of our exports which were approximately three billions less during the first ten months of 1921 than they were in the same period of 1920. This large sum would have paid the wages of four million men, at an average of $70 a month for the ten months.

"Our prosperity during the early period of the war, with the phenomenal rise in industrial and other stocks was due, of course, to our large exports. Some reaction from that abnormal prosperity was to be expected, but such a collapse of our exports as we have experienced was unnecessary, and it could have been avoided by sound governmental policies. There is no fundamental reason for unemployment and industrial depression here while the world stands in such desperate need of raw products and manufactured goods. Europe today needs goods for her rebuilding and reconstruction in quantities as great as those formerly required for destruction and purposes of war.

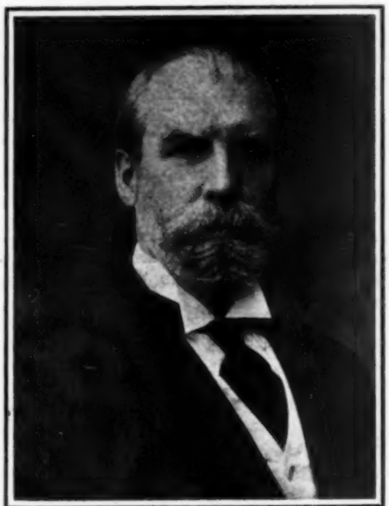
SECRETARY HOOVER

The "business engineer" of Harding's cabinet, whose efforts in European and Russian relief have been of inestimable value in building up favorable American sentiment abroad

A Remedy for the Exchange Situation

"Europe can not purchase from us, because of the unfavorable rates of exchange, partly due to her large indebtedness to us of more than fifteen billion dollars, represented by the debts and interest owing by the allied powers, perhaps three billions of dollars of open accounts, and some other obligations.

"I long since called attention to the destructive effect of this debt of Europe to us and proposed a plan for the swift and equitable liquidation of her obligations. More recently our international bankers, realizing the danger resulting from these debts, have advocated either outright cancellation, which is impossible because it would ruin any political party proposing it; or funding these obligations into long-term bonds with the deferment of interest payments. This latter plan is not acceptable because it is at once unpopular and no effective remedy for the evil.



SECRETARY HUGHES

Mr. Hughes' activities under the present administration have restored the United States to the forefront in world affairs

"The remedy which I suggest is the only effective, rational and equitable one. **I propose that the United States purchase from the allied and associated powers for an amount equal to their indebtedness to us their interest in the former German colonies in Oceania and Africa, and also the marine cables, conveyed by Germany, under the Versailles treaty, to those allied and associated powers of which we were one and are still entitled to our share in those valuable possessions.**

"This transaction would relieve the exchange situation, enable Europe to buy from us and give us, in place of doubtful assets, sound properties and new territory equal to one-third of the area of our present domain. It would enable us to participate in concert with our former allies in the rational development of the vast continent of Africa in the interest of all the nations and peoples. This 'deal' would largely liquidate the international indebtedness, so demoralizing to trade, without the further embarrassments and probably insurmountable difficulties of settlements in goods and gold.

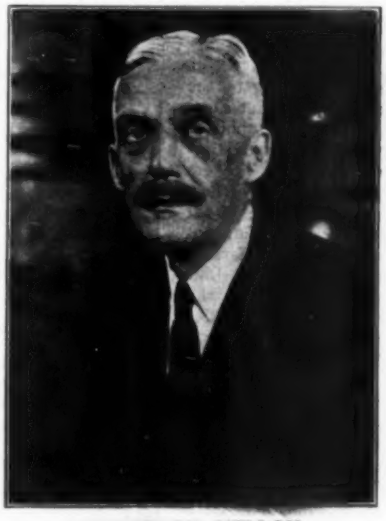
"In connection with this plan, the German reparations to the allies should be fixed at a reasonable sum, and Germany should be given credit on this account for the very valuable possessions which she has already conveyed.

Russia a Market Factor

"The buying and productive power of Europe can not be restored with Russia prostrate; so, as an essential part of world stabilization, the United States should simultaneously proceed to the solution of the Russian problem. We should immediately send a commission to Russia and invite a Russian commission here to negotiate concerning all the questions which must and can be settled prior to a recognition of that government.

"The Russians are ready to negotiate all questions, including the recognition and payment by Russia of her proper share of the old imperial government debt Upon recognition, Russia would enter the money markets of the world to borrow at least two billions of dollars for the purchase from the United States and other countries of goods which she needs for her economic rehabilitation.

"We need not worry about communism. Russia has abandoned it. The present financial, economic and industrial organizations of England, France and the United States are not the result of capitalistic theorizing, but of the play and interplay of individual, social and economic forces; and these same forces would quickly rebuild a capitalistic Russia if allowed by us to operate freely.



SECRETARY MELLON

Alert, efficient and farsighted, Secretary Mellon's department is now facing its greatest problem—the funding of the Allied debt

"The rehabilitation of Russia and her

(*Continued on page* 294)

How Bucket Shops Swindle Bankers and Brokers

Methods That Enable Them to Dupe Legitimate Houses—What Can the Stock Exchange Do?

By

THE  OWL

Editor's Note: The following article is the fourth in our series, "Bucket Shops and the Remedy for Them."

The articles have, literally, created a sensation. They have demonstrated that previous efforts to stamp out the bucket shop evil have gone for nothing. They have shown that this swindling system has cropped up again, altered only in respect of being more malignant and powerful than ever before. They have elicited commendatory letters from investors all over the country—letters like the two published here which prove that "The Owl's" description of the bucketeer's campaign plan is accurate in the extreme. They have led other publications to take up the cudgels against this nefarious system. They have aroused the constituted authorities to the need for immediate and drastic action.

Present indications are that, as a result of these exposures, another effort will be made to tear the bucket shop system up by its roots and stamp it forever out of the world of finance. It is unnecessary to say that we are proud of having contributed to this movement.

IT has been said that the legitimate broker and the banker are defrauded right along by the new type bucket shop. It is not to be thought that this damage is indirect. Many brokers have regretfully transferred to the profit and loss account uncollectible difference debits growing out of trading with the unlisted securities traders of these bucket shops.

With few exceptions the bucket shop now operates an Unlisted Department, in charge of a nimble trader. This would be legitimate enough if it were the intention of the broker to trade fairly—but it seldom is. The unlisted section of the stock market is that in which stocks having no regular market are traded in over the telephone—occasionally by telegraph or mail. There is no regulation against regular exchange members trading with non-members in unlisted stocks, and the bucket shop will always plead—if cornered—that the reason it apparently can do business in listed stocks without keeping any part of the commission is that the rules against splitting commissions is evaded by the exchange members sending their unlisted business to their non-member clients.

All sorts of securities come into brokerage offices seeking a market. Just as often orders to buy similar securities are received. Many of these stocks and bonds are gilt-edged, but simply are not listed on any regular exchange.

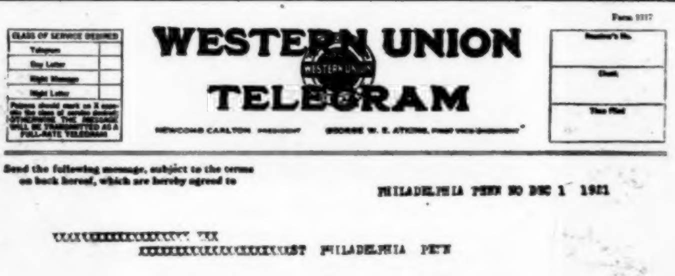
After Receiving Orders

When such buying or selling orders are received there is nothing for the broker to do but to shop around over the telephone. **It is the effort of the trader—as distinguished from the actual broker—to get in between an offering and a bid for the same security. Then by buying from one and selling to the other he can clean up a fair profit without employing a cent of his own capital.**

There is nothing wrong in this. In the course of the day the buyer and seller likely enough would have got together, but the active trader, having learned of one, ties him up with a firm offering or bid for a few minutes on the plea that he has a client who may buy or sell the desired security. Then he works the telephone at high speed, calling every likely broker until he finally gets in touch with the other side of this possible trade and then quickly closes both.

But the irregular trader, like everyone else connected with the illegitimate brokerage game, is a gambler—and not a square gambler either. He takes a chance on being able to buy stock cheaper than some legitimate broker is bidding, and will ostensibly sell him the securities for immediate delivery, exchanging with him the usual confirmations. Then begins the process of delay, delay, delay. If it becomes possible to buy the stock somewhere at a lower price the pirate trader will do so, make his delivery and pocket the profit. But if the market goes against him he will dilly-dally until the other broker, his patience exhausted, proceeds to "buy him in." This consists of buying the stock in the open market and charging the loss if any to the trader who has laid down. There is no way except by legal action of collecting this difference which, while running only into a few hundreds of dollars with each broker, may in the aggregate spell a large and juicy five-figure profit to the dishonest trader when the total of all his defaults is added up.

Of course this ends the possibility of future trades with the legitimate broker but that does not bother the bucket shop trader. He still has a thousand—several thousand—unlisted dealers to work and he goes blithely ahead with his game of collecting all his winnings and paying no losses, splitting the profits with the chief bucketeer and posing as an employe. When the firm blows up a sizable part of the liabilities will be found to consist of buy-in claims held by brokerage firms.



WESTERN UNION TELEGRAM

Send the following message, subject to the terms on back hereof, which are hereby agreed to

PHILADELPHIA PENN NO DEC 1 1921

[redacted] PHILADELPHIA PENN

PARTY IN NEWYORK CALLING YOU ON TELEPHONE ANSWER THIS CALL

FROM ANY BELL TELEPHONE ASK FOR APPOINTMENT TELEPHONE

OPERATOR

BELL TELEPHONE CO

PHR P U TEL CO

"NEW YORK IS CALLING YOU!"

The above is a fac-simile of a telegram received by a reader of The Magazine of Wall Street. Upon answering this call, the reader was advised by ———— & Co., a New York "brokerage" house, that a pool was forming on ———— Oil & Land stock, but that, although practically all the stock had been allotted, a few shares had been "reserved especially for him."

How Banks Are Victimized

Many banks and foreign money brokers have also been victimized by the bucket shop gentry through the establishment of so-called foreign exchange departments. These operate along the same lines as the unlisted departments. Constant solicitation of out-of-town banks and money

brokers and the establishment of relations with them have enabled some of the bucket shops to build up nice businesses in foreign drafts and foreign currencies. Daily offerings—sometimes almost hourly ones—are sent out to all possible customers and the telephone is worked to advantage. At current quotations every order is filled—but deliveries are "something else again," as the slang has it. **The bank or broker who buys foreign exchange from these gentry can count on it that there will be no delivery until the market has worked in favor of the seller, who then will buy it lower down and deliver it.** The buyer therefore might just as well wait several days or a week and make the profit for himself or his customer.

Now there is no legal or moral objection to the seller going short of securities or exchange at current prices and taking his profit when he wishes. But the two foregoing instances of the operations of the unlisted and foreign exchange departments do not make in any sense a short transaction. In a short trade the buyer would have no means of knowing the seller was going short—that's the seller's own secret. The seller would have borrowed the stock or exchange somewhere, putting up his own real money against its return, and would have used the borrowed certificates for making delivery. Then when he covered his short transaction he would have paid his debt to the lender and would have redeemed his own funds deposited as security. But in such a case he would have been forced to take his loss had the market gone against him. Therefore he adopts the policy of delaying deliveries, pretending that he actually believes himself to have sold short, handing out threadbare excuses for his dilatoriness, laying down on the trade at last, and having a hearty laugh when he receives the statement of the buying-in transaction and notes how much he "saved."

This simply illustrates another phase of the swindling operations practised by these confidence men who pose as legitimate brokers.

J. A. H[...]
REAL EST.
STOCKS - BONDS - INVE
GEORGIA

Nov. 28th, 1921.

Magazine of Wall St.
42 Broadway,
New York City.

Dear Sirs:

In reading your disclosures on the methods of "bucket shops" in Saturday's issue I will say that I had an experience of that kind last week, or that is, was called by New York. Luckily for me I had anticipated the conversation before I answered the "call" and was thoroughly prepared for the "occasion."

In the instance mentioned, the firm calling was ****** ******* of ***Broad St.*********************************** *********. Am a little surprised that they would spend so liberally in order to induce new customers.

For your information, wish to advise that in accordance with your recommendation, my account is now with ********& Co. of ******Liberty St. and while I became a little vexed at a margin call when I supposed that I had sufficient margin, I have learned to recognize that this was the right thing to have done in order to protect my account to the fullest extent.

I feel that through reading your columns I am learning the fundamental basis of investment speculation, and now hold on margin 20 Chesapeake & Ohio, 10 Rock Island, 10 North American, 100 Middle States, 10 Invincible and 50 Willys Overland. Have a profit in all with the exception of Overland and Invincible.

Yours truly

The Powerless Law

Easy it is to demand the suppression of the bucket shop and the eradication of the evil, but the nimble-witted operators refuse to stay eliminated. Legal enactments are effective apparently only so long as it takes to change the system to conform to the letter of the law. There is no conformation to the spirit of the law at any time. Frankly, as they will admit to any one who succeeds in entering into their confidence, they are thieves and liars and know no crime except that of getting punished—one occasionally gets caught, they will explain, but by knowing the right people, punishment can be evaded and publicity is then frequently avoided.

The New York Stock Exchange has fought a long hard fight against the bucket shops and in 1916 succeeded in stamping them out. There isn't any question that the forces that have fought for good, particularly in the five years following the investigation by Charles E. Hughes, now Secretary of State, believed sincerely that the fight was won when the make-believe exchange in Pittsburgh was raided and the chief operators received two-year jail sentences which were suspended pending good behavior. As a matter of fact, those who signed the pledges to be good if they were let off, kept their words and have entered other avenues for gaining livelihoods.

It is only in the last year or two that the bucket shop has come to life again, and this time in the different, new form that has been described in this and preceding articles. The term "bucket shop" does not really apply, except that it is a form of illicit brokerage, conducted in such a way that the law is, or seems, powerless to check or punish. Only when the crooked broker steps over the line and sells out stock that has been paid for in full and thereby has become what is known as "cash stock," is the criminal law able, apparently, to lay the malefactor by the heels.

The law requires also that the broker must at all times have on hand or under his control the stocks he is carrying on margin for his clients. So long as the stocks are in physical possession of the broker, carried by him in turn on margin with another broker, or held in his own loans, the stocks are on hand or under his control, and the new method bucket shop relies on its margin purchase to evade this legal requirement. Having bought the stocks on margin for its customer it points to this as evidence that the securities are still under its control. **The subterfuge of a "phony" account whereby the stock is immediately resold and the customer's order thus actually bucketed has worked thus far, although legitimate brokers and exchange authorities believe that the crooked broker could be successfully prosecuted by the state authorities if the broker's books were thrown wide open, for it could be shown, then, that the stocks were not "at all times under his control." It need be necessary to open only three of the "broker's" books, in fact.**

The Gentry's New Methods

That some of the gentry are beginning to fear this could be accomplished through having their accounts with other brokers subpoenaed into court is suggested by the new practice—increasingly popular since this series began—of carrying accounts with several brokers, buying the stock in one through one broker and selling it out

(*Continued on page 286.*)

Foreign Trade and Securities

The International Balance of the United States

Its Bearing Upon Our Exchange and Debt Situation

By **H. PARKER WILLIS**

THE present position of the United States as a creditor of other nations has been an almost continuous subject of discussion since a date soon after our entry into the war in 1917. It is a matter of fundamental importance from the standpoint of current banking and exchange because it bears directly upon the possibility of re-establishing a stable monetary relationship between this and other countries and of restoring either parity, or, at any rate, a "stabilized value" of the currencies of these countries in terms of the dollar. At the present time, with exchange on various countries uncertain and in most cases at a low figure, the basic problem to be considered is the extent of the debt of these countries to the United States and the methods of liquidating such debt.

It may be that in some cases the cancellation of our claims upon other nations, either in whole or in part, will prove to be the only way out of the difficulty. In other instances, it may be that funding arrangements can be devised whereby the balances now carried on the books of banks and merchants can be converted into bonds and provision made for paying the interest thereon by an excess of imports into the United States. These are questions of policy for the future. Underlying them is the issue of actual present conditions.

Actual Balance of the United States

To technical readers it need hardly be said that there is at any given moment ordinarily no possibility of ascertaining the exact balance due from one country to another. So long as specie redemption was maintained and so long as the movement of specie from one country to another was unrestricted, as was the case before the European war, the quotations of the various foreign exchanges constituted an approximate measure or index of the extent to which an international balance was favorable or unfavorable.

Since the suspension of gold redemption and the placing of restrictions upon the movement of gold, since, moreover, the vast accumulations of gold in the United States have been developed, the only absolute way of ascertaining the position of the country at any given moment is that of obtaining from all those who are concerned in the trade precise statements of the amounts which they owe or which are owed to them. Such a method of investigation is laborious and costly, involving besides the element of inquisition into affairs which are ordinarily considered confidential. There is, therefore, no mechanism at the present time by which this plan of ascertaining international balances can be applied.

Over short periods, however, it is relatively possible to figure the approximate position of the balances, if a reasonably firm basis from which to start could be afforded by a knowledge of the international position at any given moment.

During our participation in the European war, the ascertainment of this international position was undertaken by the Federal Reserve Board, which then obtained from the principal banks and merchants engaged in foreign exchange transactions and in foreign trade in general, regular weekly reports of their condition. This was done under the authority of the President of the United States, in pursuance of his wartime powers granted under "Trading with the Enemy Act of October 6, 1917." On October 12, 1917, the President issued a proclamation giving to the Secretary of the Treasury the power to request the data needed and to call for books and documents if desired. Again

TABLE I.—NET BALANCE OWED BY THE UNITED STATES TO FOREIGN COUNTRIES.

(On specified dates.)

Countries.	Feb. 27, 1918.	Nov. 13, 1918.	Dec. 31, 1918.	June 25, 1919.
Great Britain	$92,699,478	$160,025,743	$142,008,511	$105,363,541
France	141,679,586	195,209,012	144,122,473	68,852,622
Italy	42,050,559	83,104,588	58,616,854	78,239,156
Denmark	69,346,193	86,255,842	91,039,784	67,170,134
Holland	63,037,005	59,827,781	70,393,334	73,838,392
Norway	63,793,797	63,959,939	62,116,305	31,054,310
Sweden	23,895,040	35,373,540	41,652,177	46,214,438
Total Europe ..	$634,063,109	$806,907,192	$733,360,173	$549,978,423
Argentina	28,662,502	66,510,049	77,291,385	62,601,213
Brazil	*9,176,195	*15,485,240	*16,627,060	*19,198,693
Chile	*9,156,789	*14,349,951	*16,607,811	*8,041,166
Total So. America	$2,499,153	$25,715,783	$34,637,854	$15,830,812
Canada	71,180,679	15,848,069	29,378,225	55,435,286
India	6,563,231	*16,277,580	*15,029,425	*8,833,858
Japan	20,840,274	81,133,783	99,816,033	*1,965,968
Grand total	$773,882,376	$927,446,517	$882,135,870	$643,047,223

*Owed to the United States.

TABLE II.—INTERNATIONAL BALANCE OF THE UNITED STATES ON OCTOBER 1, 1921.

(In millions of dollars.)

Items	1919	1920	1921 (9 months)	Tl. Jan. 1, 1919, to Oct. 1, 1921
United States, creditor				
Excess of exports of merchandise....	4,016	2,949	1,679	8,644
Net exports of gold and silver........	441	....	....	....
Net exports of Federal Reserve notes	91	103	....	194
Net interest payments receivable (private)	60	125	150	335
Net ocean freight payments receivable	220	140	50	410
Total credit items............	4,828	3,317	1,879	9,583
United States, debtor				
Net imports of gold and silver.......	....	70	559	188
Net imports of U. S. paper currency	....	....	100	100
Net international payments of United States Government	2,375	305	(*)	2,680
Net private investment of American capital abroad	†300	†235	250	785
American securities resold to United States	150	125	40	315
Immigrants' remittances and relief..	†600	†700	300	1,600
Tourists' expenditures	†50	†150	125	325
Total debit items............	3,475	1,585	1,374	5,993
Net additions to unfunded credit balance of the United States.........	1,353	1,732	505	3,590
Net balance on open account owed by United States on Dec. 31, 1918....	....	....	....	882
Net unfunded credit balance of the United States, Oct. 1, 1921‡.......	....	....	....	2,708

*Definite figures not available.

†Estimate of John H. Williams, in Review of Economic Statistics, Supplement, June, 1921.

‡Subject to the modifications noted in the accompanying text.

on November 23, 1917, a further order to the same purport was issued, and on January 26, 1918, powers of inquiry were given to the Federal Reserve Board for the purpose of putting into effect the authority to ascertain exchange transactions which vested in the President under the Act of Congress already referred to. By the exercise of these powers the Federal Reserve Board collected during the months intervening between January 26, 1918, and June 30, 1919,—a period of nearly eighteen months,—specified information concerning the international position of the United States.

It is possible, therefore, to furnish a fairly accurate statement of the position in which we as a nation stood with respect to other countries at certain dates. Such an analysis shows the following results as recently compiled from the reports made to the Federal Reserve Board during the war period. It has never been thought wise to make public these data until very recently but enough time has elapsed to obviate any danger that the information would affect individual or corporate transactions growing out of the position of the various concerns which were then reporting.

The table (Table I), of course, shows simply the aggregate of the operations engaged in by the enterprises which reported to the Board, and which, of course, could not, in the nature of things, include absolutely all in the country. Nevertheless, the stringent character of the regulations for registration of those who were dealing in exchange and who were carrying foreign balances were of such a nature as to make it tolerably sure that the figures are to all intents and purposes inclusive.

It will be seen from this table that, at the time of the armistice in November, 1918, this country, therefore, owed to foreign countries a sum rather greater than 927 million dollars on open account. At the end of the year, the amount had been reduced to 882 million dollars.

Significance of "Open Account"

It should be understood, of course, that the term "open account" refers simply to the ordinary commercial and banking balances that arise in the course of business. During the war, as is well known, the United States Government was granting large loans to most of the allied countries. These loans took the form of bank credit and were drawn upon as the various countries felt the need for the money. The Government issued bonds and collected taxes. The foreign governments gave to our Government their own obligations. These obligations were received by the Treasury, and a corresponding value was, as already stated, transferred to the account of the foreign countries in bank credit.

It is clear, therefore, that when we say that at any given time a specified amount was owed by the United States to foreign countries, the amount practically represents the balance of foreign loans which had been granted by our Treasury, inasmuch as the importations from all other countries were nowhere nearly sufficient to offset the exports which we were sending to them.

The funded indebtedness growing out of our international trade during those years was represented largely by the bonds which the foreign countries gave to the Treasury; the unfunded indebtedness was the unused balance of their loans standing on the books of banks and merchants and which these latter therefore, were bound to pay at any given time to foreign creditors should they demand it.

During the months after the close of the war the Treasury felt itself under obligation to extend still further credits to foreign countries because of contracts entered into prior to the close of the struggle, due to the fact that war expenditures necessarily continued at high level for a good while after the nominal cessation of hostilities. In this way probably about 2,500 million dollars of advances were made by our Government in 1918. Thereafter foreign countries, if they wished to continue to buy from the United States, were obliged to send us either goods in exchange or gold, or to sell here other securities, or to return American securities, selling the latter in this market and thereby re-establishing a credit here.

TABLE III

Balances Due to and from the U. S. (Balances owed by foreign countries to United States are marked by minus (—) sign; balances not so marked are owed by United States to foreign countries.)

Countries	Dec. 31, 1918
European Allies—	
France	$144,122,473
Great Britain	142,608,511
Greece	45,064,708
Italy	58,616,854
Portugal	2,253,679
Russia	23,352,748
Other points	6,991,165
European Neutrals—	
Denmark	91,039,784
Holland	76,393,334
Norway	62,116,305
Spain	31,146,756
Sweden	41,652,177
Switzerland	27,191,007
Central Powers—	
Austria-Hungary	— 4,278,404
Germany	— 8,901,764
Turkey	— 9,160
Asia—	
China	601,589
East Indies	3,580,483
India	—15,029,425
Japan	99,816,633
Straits Settlements	— 1,012,470
Other points	1,192,205
North America—	
Canada	29,378,225
Central America	5,282,137
Mexico	19,703,676
West Indies	—24,214,933
South America—	
Argentina	77,291,385
Bolivia	3,316,658
Brazil	—16,627,008
Chile	—16,607,811
Colombia	— 7,736,792
Ecuador	— 2,636,149
Peru	3,933,662
Uruguay	306,850
Venezuela	— 4,371,442
Other points	— 2,831,447
Africa	— 4,497,533
Australasia	— 582,138
Recapitulation—	
European Allies	$423,010,138
European Neutrals	323,539,363
Central Powers	—13,189,328
Asia	89,148,409
North America	30,009,105
South America	34,637,854
Africa and Australasia	— 5,079,671
Grand Total	$882,135,870

It is clear, therefore, that, in order to get an idea of the amounts which are to-day owed by foreign countries to the United States, a problem containing several elements must be analyzed. These elements include the loans made by the United States to foreign countries after the armistice, the exports and imports of merchandise between the United States and other countries, the shipments of gold into and out of the United States, the sales of American securities made in this market by foreign holders, and the sale of foreign government and private securities made here.

In addition to those factors, various relatively minor factors representing remittances made by foreign citizens resident in the United States and payments for insurance and shipping services, both rendered to and by our citizens to the Government, must be considered.

Taking the ascertained situation at the close of 1918 as the base from which to start, (a debit balance of about 882 million dollars), and reckoning the various items to which reference has already been made for the years 1919, 1920 and 1921, we may arrive at at least a conjectural estimate of the present situation in our international balance. Such an estimate has recently been prepared by the Federal Reserve Board and is as shown in Table II.

Uncertain Elements

Certain factors in addition to the data just furnished must be considered. One of them is the amount of the settlements which were made by European countries as a result of the cancellation of their war contracts for supplies. After the armistice many of the European powers obtained releases from such contracts by paying to American manufacturers or exporters a sum determined by negotiation and which thus constituted a claim upon the foreign buyers. Official information shows that the amount of such cancellation was probably about 500 million dollars, while transfers made by Oriental banks from London to the United States add about 200 million dollars to this sum. Taking the total of 700 millions thus obtained and adding it to the 2,700 millions indicated in the balance sheet just submitted, gives a total unfunded balance of probably 3,400 millions.

It should be remembered, of course, that this is a gross or indicated total, and that from it must be deducted items representing the bankruptcy of foreign debtors, as well as of goods sold abroad at less than their export value in order to close up shipments which had been made on a consigned basis, and a variety of items growing out of trade transactions closed by private negotiation of which no record can be obtained save through a scrutiny of books of merchants and bankers. **But when all allowances of this kind have been made, it would still seem probable that the amounts for which the United States is today a creditor with respect to the rest of the world will run to a figure in the neighborhood of 3 billion dollars. If this be correct, or approximately correct, an explanation is afforded of the reasons why the financing of our trade with other countries is today so difficult, and a measure of the continued depression of their currencies in terms of our own is supplied.**

It is also indicated about how much of such floating indebtedness will have to be disposed of either by writing it off (cancellation) or absorbing it by the

(*Continued on page 282.*)

Is Germany Coming Back?

First Hand View of Conditions in German Finance and Industry—The Future of Marks

By **MAX GOLDSTEIN**

Editor's Note: Mr. Goldstein, who was for some time a member of the regular staff of THE MAGAZINE OF WALL STREET, has spent the last two years on a trip through Europe. The article which follows reflects conditions as he has found them in Berlin. In its analysis of the German financial and industrial situation, it will be found unprejudiced and highly trustworthy by the great number of investors and business men who have become interested in German marks and in German industrial securities since the war.

BERLIN, Germany.

GERMANY today presents the most perplexing puzzle of the whole complicated network of international finance. The situation in every other country that the writer has visited in the past two years can, after all, be summed up in a more or less accurate phrase: America is a huge industrial machine temporarily slowed down, and gathering steam for a fresh effort; in London, walking down Cannon street and Leadenhall and Throgmorton one feels close to the central keyboard from which the international exchange of goods is ordered; France is a "tighter" little land than England was ever supposed to be, sitting on its savings and not taking chances; but Germany — there is scarcely a single clear-cut statement to be made that does not instantly have to be clouded over with a mass of qualifications and conditions to be even approximately correct.

Some Popular Ideas

It will be perhaps simpler to begin with some of the popular ideas current about Germany that the writer brought with him from America and see how they came out in the course of four months' examination during which the writer came into contact with business men of the most varied branches, views and dimensions.

The old notion of a Germany waiting for a chance to flood a shuddering world with exports at competition-crushing prices has been fairly definitely torpedoed by now, but it might be worth while to put some finishing touches to it. It is true, of course, that German labor, and the prices of home-grown products are ridiculously cheap as compared with those prevailing abroad, measured in foreign currencies. With the dollar at 200, for instance, the following data are somewhat alarming to the man who looks merely at labor costs: unskilled labor can be hired for $1.50 to $2 a week; rent of a room, with coffee mornings, $1 to $1.50 a mont' · dinner in a first-class restaurant, 30 cents, in an ordinary one, 15 cents; champagne (merely as a touch of villainy on the writer's part) 35 cents a bottle up; street-car fare, ½ of 1 cent; telephone, ¼ of 1 cent, including the recent 100% increase; and so on. Many people wonder why it is that, with prices so cheap as all that, Germany does not sweep competition off the face of the earth.

One principal reason is that she lacks the raw materials.

Germany's Lack of Raw Material

The present level of prices is based upon prices of raw materials purchased at a level of exchange anywhere between 200 and 40 marks to the dollar. In any case, the fall of the mark has been so rapid that it is practically certain that the production costs, with regard to costs of imported materials, have probably doubled, over the production costs of articles sold today. In other words, Germany is due for a tremendous increase in prices, barring a sharp improvement in the mark, of probably unprecedented magnitude.

To give an instance of the attitude of the people—one day I handed a shopkeeper a 20-mark bill by mistake for a 5-mark bill for a bar of chocolate. He called my attention to the error, but added, "It's all right, though, it won't be long before you'll be paying 20 marks for that bar of chocolate."

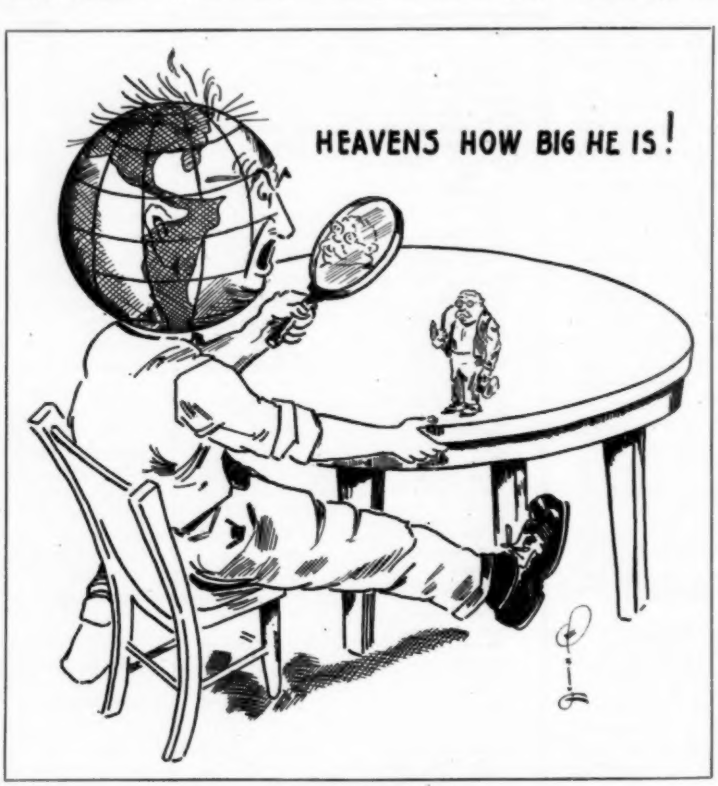
Germany's dependence on raw materials is greater than many of us think. Even coal, which she produces in large quantities has to be imported; one Hamburg manufacturer told me he uses coal from America, in spite of transportation costs and exchange, because he needs that particular quality. **Add rubber, copper, cotton, wool, grain and many more commodities which Germany has to import, and it is evident that the German price level is practically dependent on the level of its currency.**

Add to this the various export taxes, the prohibition of exports of some articles which are not produced in sufficient quantity for the domestic needs, the high tariffs and import prohibitions in countries like America, England, France, Switzerland, and other former good customers, even the shortage of labor in certain industries, and it will be seen why the famous bugaboo of German dumping, with a few spectacular but unimportant exceptions, has failed to materialize.

Is Germany Prosperous?

Another question, which usually comes up in connection with the question of Germany's ability to pay the reparations, is "Is Germany prosperous?" The only fair answer that the writer can bring himself to give is, "She is and she isn't, depending on how you mean prosperous".

A banker coming to Germany would throw up his hands in despair over the



AT FIRST GLANCE

What the world thought of German competition a few months ago. What the world thinks now is a very different thing. But then, it has laid down the magnifying glass!

situation. **A country where note issues are constantly expanding and the gold reserve is stagnant or decreasing, so that the percentage of gold cover is constantly on the decline; where loans are increasing far faster than deposits; where imports are still running well ahead of exports; where speculation is growing wilder and wilder, would certainly seem to him to be on the road to ruin.**

On the other hand, when an industrial executive comes to Germany, and sees the factories going at top speed, continually building new plants, increasing the production of old ones, putting on new shifts, sees order-books loaded up until the summer of 1922, with a buying pressure so keen that not only manufacturers, but wholesalers and retailers have to live from hand to mouth, would say that here is a country in the height of prosperity.

The answer is that Germany is industrially vigorous and financially broken down; or put in another way, that to the German, "business is good and everybody can make money," as a Cologne manufacturer put it, as long as he stays within his own country. When he goes abroad with his money, however, he finds it of no value to speak of. One leather man who had extensive connections in England before the war told me that he cannot afford to take a business trip to England. "One month of English prices," he said to me, "say 40,000 marks, and I'm a ruined man."

This is why French observers can come into Germany and say that the country has every earmark of prosperity, and ought therefore to pay up the reparations, while at the same time the Germans protest that they simply cannot, as their money is worthless once it passes the frontier.

The Appearance of Prosperity

The truth is, that Germany is only maintaining its appearance of prosperity by a gigantic process of "pyramiding". Put crudely, it amounts to this: Germany is keeping its factories busy using up raw materials, whose purchase depresses the exchange from 50, say, to 75; at this level it is easy to sell the goods, so that pretty soon the finished products made out of the raw materials purchased at the lower level are exhausted, and new materials have to be bought, whereupon the exchange drops to 100; this process carried on for a long time brings us to the position Germany is in today, where its exchange is constantly falling and falling, while prices are rising and rising.

And so the balloon is kept inflating, because if it ever stopped there would be a tremendous crash all over Germany. Consider the position of a man who buys cotton at 34 marks a pound, the dollar being 200, if the rate dropped to forty marks to the dollar, and he had to compete with manufacturers who bought their cotton at 7 marks to the pound! He certainly does not want the dollar rate, and with it the domestic price-level, to drop; but he is not much better off if prices and dollars rise. When he tries to sell a German workingman a shirt for 200 marks that could have been bought a month before for 100, there will be trouble; hence more wage increases, still inadequate to the increased prices, labor difficulties, slowing-up of buying, and hesitation. Add to this the fact that at the same time, as I witnessed recently, one man can sell a certain article at 100 marks and be an outrageous profiteer, which another sells the same goods, only made up of raw materials bought at a different time, for the same 100 marks, and loses 25 marks on each purchase! This will give some idea of the state of affairs in Germany.

The "Ausverkauf"

There are three words that are bound to come up every time a German discusses business: "Valuta," "Schieber," and "Ausverkauf." The first, meaning foreign exchange, is what worries every German, of high and low degree. I would lay odds that you could stop any man at random on a Berlin street, ask him what the dollar sold for yesterday, and get an accurate reply.

A "Schieber" is primarily a man who ships abroad, goods of which there is a shortage within Germany in order to take advantage of the exchange situation, though now it means any kind of profiteer. It is the activities of these gentlemen that are alleged to be responsible for the dreaded "Ausverkauf," or complete selling-out of all the goods in Germany, without the possibility of replacement. Germans point to Austria as an example of what they mean by an "Ausverkauf," where the goods in the country are sold out, mostly to foreigners, and it costs so much to buy new ones that the domestic population cannot afford it. When you tell an American, for instance, that fur coats can be bought here for $9, he will wonder why the street-cleaners do not go to work in their furs. In point of fact, though, the workingman is lucky to be able to afford a suit of clothes at $3.50. If America, for instance, should suddenly become enamored of German clothes (which God forbid!), and with the help of a few "Schiebers" aided by the present "Valuta" should buy cheap suits at $4, decent suits at $7, and splendid suits for $15; it would not take long before the clothing industry would be completely "ausverkauft." For evidently if the German finds it difficult to buy a suit for 800 marks it will be a good deal harder for him to clothe himself with suits at, say, 1,600, which is what the price will come to if the suits are made out of cloth or wool purchased at the present or even lower values of the mark, in other words, with new material.

As, under the present conditions, the domestic market is of far more importance to the German business man than the export, it is evident that he looks at the fall of the mark with a sinking of the heart, in spite of the opportunities for tremendous profits in the export trade that it holds out to some. It also explains why the export trade, formerly the backbone of Germany's industrial structure, is now regarded with very mingled feelings, if not actually denounced as a "crime against the people" in some quarters.

This fear of an "Ausverkauf" is not entirely baseless, either. The other day in a department store I found three whole departments entirely closed for lack of goods to sell. German business men are cutting down on their advertising, especially in foreign periodicals, because, as the head of a chain department store put it, "We're selling too much goods as it is."

The Securities Market

The conditions in the German securities world are just as paradoxical as in other fields. Every German who has bought consistently is a big winner; every foreigner who has bought is a loser. A short time ago there was a saying current in the Burgstrasse, around the Berlin Bourse, that if a stock was not selling at five times its pre-war price it was "below par." Now they make it ten times.

Even at that, however, take Kölner Brauerei stock, for instance, selling at 800 while it was at 100 in 1914. Obviously a German who has held on since 1914 has big profits in his stock. Take a foreigner, though, an American, for

(Continued on page 292.)

"Go West, Young Man!"

Greeley's Advice Brought Up-to-Date—What the Real "Problem of the Pacific" Is

EDITOR'S NOTE: The forensic possibilities of the Far East Problem, as brought up at the Arms Conference, have by now been pretty thoroughly exhausted. Here is the other side—the purely practical side—as it appeals to a forward-looking and eminently qualified observer who prefers to remain anonymous.

THE conference now on at Washington (so far as it concerns "Far East" problems), suggests a paraphrase of Kingsley's celebrated aphorism "westward the course of empire takes its way" into "westward the course of economics takes its way" and hints that this conference may be a dramatic beginning which within a few short years will make the Pacific Ocean the centre of World affairs in an economic sense.

The farmer, the cotton grower, the manufacturer and the business man have increasing realization that these United States are confronted by the serious and involved problem of disposal of our surplus production (producers' and consumers' goods alike) and economic sharps assert that, what with increasing population, increasing farming areas, extensions of present plants, new manufacturing and other enterprises this problem will loom larger and larger as time goes on and have a cumulative and vital relation to the economic health and progression of our country.

Explaining the World "Upset"

Many people are content to explain the present world upset as exclusively the result of the world war and consequent disorganization in Europe and to assert that Europe must be stabilized in the first instance before the world can again progress industrially and otherwise. But Mr. John Maynard Keynes and other experts have pointed out that for more than a generation before the world war Europe was skating on very thin economic ice and that the war only hastened a condition which was fairly sure to eventuate, not the least important factor being the gradual absorption by this country of our surplus food stuffs and other natural wealth and that (the great war aside) instability, deterioration and possibly disaster might be the lot of Western Europe.

Since the Armistice our international energies and efforts have been largely absorbed by the concept that we must assist Europe partially for sentimental reasons and in larger measure because of "enlightened self interest." Europeans have kept at us in this particular *ad nauseam*. We have been fed up with sentiment, warnings, and advice accompanied oftentimes by display of a somewhat comical anxiety as to our future well being (exceedingly well illustrated in Mr. John Oakwood's article in a recent *Annalist*).

As a consequence we have Mr. Gardin's billion dollar gold revolving fund, the ter Muelen plan, allied-debt cancellation scheme, Senator Hitchcock's proposals, Mr. Vanderlip's international corporation and so forth and so on, substantially all of these catholic or universal remedies leading to the point that "Jones, he pays the freight" (Uncle Sam staged as Jones).

EUROPE'S DIMINISHING RESERVES.

	Ratio of reserves to notes 1904	1913	1921
Belgium	17.2	28.6	5.0
France	87.0	72.8	10.3
Germany	57.9	55.8	1.3
Great Britain	106.1	118.1	36.9
Italy	40.1	57.8	5.8

What We Have Done for Europe

We have done much for Europe; altruistically to the tune of many hundred millions, economically in billions of dollars. The Federal Reserve Board estimates our net unfunded credit balance on October 1, 1921, as over $2,700,000,000 (the major portion European). The total capital issues (foreign corporation and Government borrowings) show as many billions of dollars. In 1921 alone such issues amount to over $104,000,000 and eminent economists have repeatedly declared that this increasing outpouring of our credit must stop and that persistence in this sort of thing is fraught with danger for the whole world as well as ourselves.

Overseas economists for some time have been seriously considering the European outlook and have questioned whether or not Europe will not be forced to a lower scale of living and drastic social readjustment. If so this spells diminished consumption of our products. **If so we must discover other outlets for our surplus for if we await European come back we shall be twirling our thumbs for a long long time and surely basking in the moonlight of frequent industrial depressions and perhaps losing billions to boot.** We must remember what a long time it took Europe to revive after the 100 years' war and after the 30 years' war.

In Europe are racial hatreds, historical hatreds, political jealousies, harborings of revenge, in short a psychology which we may never hope to fathom, strive as we may. But we can comprehend that the printing press stuff yclept "money" with which Europe is deluged will prove more disastrous than the French Assignats of 1790. We can understand the diminishing ratios of reserve to notes illustrated in part by the table appearing elsewhere on this page, and that **of seven great industrial countries (England, France, Germany, Italy, Netherlands, Argentina and Japan) since the Armistice Japan only has been able to keep its exchange within respectable hailing distance of parity.**

Things We Know

Only the other day we were told by Mr. Vanderlip that a certain European country is the greatest financial juggler in the world (there are surely others which are close seconds). We know that Europe is more dependent than ever on foreign productions—lumber and sugar, for instance, which she must pay for in gold; that whether or not our Merchant Marine proves a success it may diminish almost to the vanishing point profits or "invisible exports" which certain European nations enjoyed from sea borne commerce. Much of the merchandise that formerly passed through European markets (sugar, rubber, cocoa, coffee and the like) now passes through the United States. The Panama Canal is seriously affecting the Suez Canal as a sea highway. American coal production is disastrously competing with Great Britain. We are now turning out former specialties of European workmen. In silks (with Japan) we are absorbing the foreign markets of France. The Scotch flour mills are threatened by our competition. In dyes we are becoming self sufficient. There is much other data to the same effect.

And now comes Professor Demangeon of the Sorbonne in his astonishing work entitled "America and the Race for World Dominion" (recently done into English) who writes "Well may it be said that we are beholding Europe in decay" and he goes on to declare that "The heirs of Europe are the United States and Japan" and further that "The Pacific Ocean, long out of touch with the commercial centres, stimulated into life by the navigators and merchants of Europe, is awakening to independent life. Her shores that, for a century, had turned, one to the West and the other to the East, now look to each other, and are becoming the coasts of a new Mediterranean."

Confessedly we should help Europe but for a time at least we are clearly justified in awaiting clear indications from that part of the world that the light is coming from within. "Recuperation on the Continent (Europe) in any case will not be brought about by the waving of a magic wand. It must come primarily through Europe's own efforts." (N. Y. *Post*.)

What of the Future?

It is well then that we pause and ask ourselves what of the future? The London *Statist* has recently asserted that business and not philanthropy is the true basis for international relations.

So far as we are "the heirs of Europe" it behooves us to use our energies and power for uplift of the whole world and not any particular part of it.

Moreover, "an economically sound and powerful United States is today the *sine qua non* of world progress and eventual

(*Continued on page* 289)

Money, Banking and Business

Why Wheat Is Selling at a Dollar a Bushel

The Leaden Realities of a Golden Dream—Whats and Whys of Grain Speculation

By **ROBERT H. MOULTON**

"DOLLAR wheat," once the golden dream of the American farmer, has become a leaden reality. From a government guaranteed price of $2.36 a bushel during the last years of the war, wheat has gone down to considerably less than half that amount; it is actually selling at the present time for about half what it did one year ago, and this in spite of the fact that the 1921 crop is approximately 50,000,000 bushels smaller than the crop of 1920.

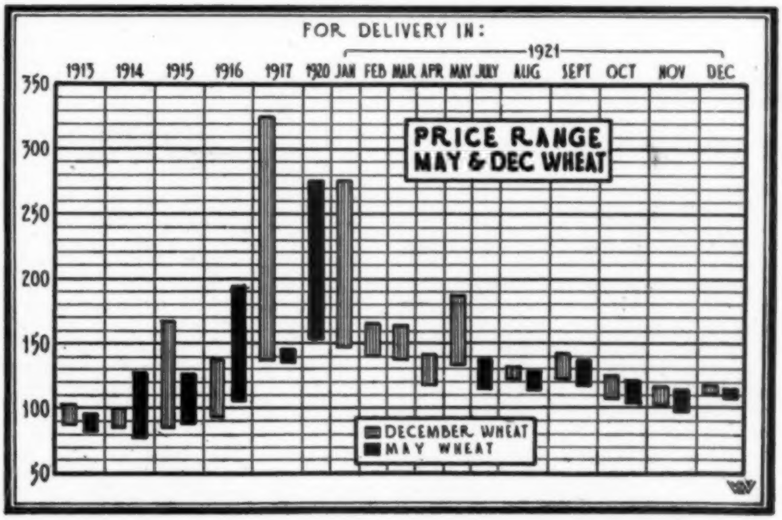
To the farmer, who says that wheat at a dollar a bushel does not pay the cost of production, all this is inexplicable. He can understand why, during a period of readjustment of prices of all commodities, the price of wheat should decline moderately. But, he says, wheat has suffered more through this readjustment than any other commodity, not one of which is as absolutely necessary to the human race as wheat. And again he points to the fifty-million bushel smaller crop this year.

In its final analysis it will undoubtedly be shown that the present comparatively low price of wheat is due principally to two causes: Abnormally heavy marketing by the farmers of the country during the period from July to November 1 of the present year, and the almost utter absence of speculation, as compared with former years, on the grain exchanges of the country during the same period.

Deliveries to Primary Markets

From July 1 to November 1, 1921, there were received at the primary markets of the country 245,202,000 bushels of wheat as against 166,202,000 bushels during the same period last year. In other words, American farmers shipped to market during the last crop-moving season approximately 80,000,000 more bushels of wheat than they did a year ago. **In previous years there has always been a small army of speculators who were willing to carry the burden of heavy receipts during the July-November period. This year, however, it has been a very different story. The volume of trading on the Chicago Board of Trade, for instance, has been about the smallest in the history of the institution, and without this support the market has sunk of its own weight. What causes have been responsible for this lack of trading it is unnecessary here to discuss. It is enough to know that there has been none to speak of, and the imperative need of organized speculation has been vindicated as it never was before.**

There are few more important economic questions about which there is more confusion of ideas than there is concerning speculation. The attitude of the general public, as expressed through the press and in the resolutions and laws of the legislatures and of congress, and the interpretation of these laws by the courts, shows a widespread lack of information concerning the buying and selling of produce upon the organized grain exchanges. This confusion seems to consist largely in two misunderstandings, viz: first, that speculation in itself is the sole and only cause of the rise and fall in prices, and second, that speculation is identical with gambling, i. e., that it serves no useful purposes, but exists only as an outlet for certain trouble-making tendencies in human nature.



Why the Public Misunderstands

It is quite natural that there should be this lack of familiarity on the part of the public with our modern mechanism for distributing commodities. This mechanism is the product of the most rapid series of changes in industrial organization that the world has ever known. When we recall that the first railroad was opened for traffic in England in 1823, that in 1850 there were only 9,021 miles of railroads in the United States, that the first steamship crossed the Atlantic only in 1833, that the commercial telegraph was invented in 1837, and the first Atlantic cable laid in 1866; when we recall these facts, we realize only in part the tremendous change which has come over the economic world within practically the last seventy years. While within this period the country's population has grown from approximately 31,000,000 in 1860 to approximately 105,000,000 in 1920, the production and consumption of goods have increased at a far more rapid pace.

Vastly more important for our purposes, however, is the equally great change that has come about partly as a result of these other changes in the organization of business itself during this same period. The most striking features of this development are: 1. The growth of large-scale production with its accompanying by-product economies. 2. The enormous conversion, largely in 1880, of partnership and one-man business into corporations, with the corresponding increase of stocks and bonds. 3. The combination of concerns in the allied lines into huge holding corporations with hundreds of millions of capital. 4. The rise of great organized public markets throughout the country for the buying and selling of stocks and produce. These features of our industrial growth are well known, but their close relationship and interdependence are not always borne in mind.

Remuneration for Taking Risks

Until comparatively recent times little recognition was given to the claims of remuneration for risk-taking. To-day we recognize that risks must be taken if industry is to be carried on, and that all necessary risks must be eventually borne by the consumer in the higher price of the goods thus produced. The world is willing to pay for the necessary risks assumed in the growing and marketing of its crops, but it demands that this risk be made as small as possible. Yet how is the world

to determine each year what a reasonable price for wheat is—a fair price to the farmer who grows the grain and fair to the millions who consume it? The problem has been solved by the growth of the speculating class, men who make it their profession to study the conditions of the supply of and demand for wheat throughout the entire world, and buy and sell accordingly until the price approximates a point which gives the farmer a fair remuneration for his labor and judgment, thus insuring a continuance of the supply, and at the same time keeping down the price to the consumer as near as possible to that secured by the farmer. The phrase "as near as possible" is used advisedly, because in no other field is competition more sharp and vigorous than on the organized markets where produce is bought and sold.

From the individual point of view, the speculator is one who seeks to forecast changes in value, and buys and sells accordingly in order to secure as a profit the difference between the two prices. From the point of view of the trade, the speculator is that member of it *who assumes the risk of changes* in value of the given product as it passes from producer to consumer. His services are in the nature of an insurance to the other members of the trade. As a member of the body politic, the speculator may be regarded as embodying the keenest foresight of the community. He is the commercial scout who first discovers and reports changes in value, and thus is an indispensable instrument in the direction of the world's industry into the most efficient channels.

The Risk of Ownership

Production imposes ownership of the product. Ownership of the product is inseparable from the risk of ownership. Risk of ownership is due to the vicissitudes of the seasons, and other influences beyond man's control. Inasmuch as there is a grain harvest every month of the year in some part of the globe, fundamental conditions of the immediate future are always in doubt. In the growing and distributing of produce the community must take the risks of fluctuations in value. How shall this risk best be taken? Who is best fitted to measure and meet it? The farmer cannot take it. He, as an individual, raises but a ten-thousandth part of the crop. The consumer or the baker who buys a fractional part of the flour manufactured cannot assume it with any success. The price of wheat, for, instance, which fluctuates is a world price. The big wholesaler formerly took much of the risk of changes in the value of wheat occurring between the moment it ripened in the field and the moment it went to the miller to be turned into flour, and he still takes a part of it.

But the final evolution of the problem of risk in this field of production is the development of a trained group of speculators who give their time, ability and capital to the determination of values. They have come to express, where there is a bona fide market, the best judgments of the world on the value of the commodities in which they deal/

The bulls take care of the interests of the farmer. They watch every opportunity to push up the price. Every failure of the crop in a local district, every bad period of weather which seems likely to bring about or increase that failure is used by the bulls as a basis for paying or offering to pay a higher price for the crop in question.

On the other hand, the bears represent the consumer who is on the watch to buy at the lowest possible price. They are the agents of the bread-eating public to see that very factor tending to lower the price has an adequate effect in lowering the price, as far and as soon as possible.

For this service of acting as a medium through which the forces of supply and demand act with the least friction, the speculator receives his speculative profits. These may at times be large, but they are no larger than profits gained in any pursuit. Exceptional ability invariably commands exceptional returns.

What a Speculator Is

Ownership of soil products, together with the risk of ownership being impossible to eliminate, it is apparent that someone must assume this risk, whether willingly or otherwise. This risk is known in different places by various names, but at market places it is always properly termed "speculation." It is seldom fully realized by those not engaged in the grain business that the active market speculator is the owner of all surplus grain—that is, that portion of the crop not consumed in the locality in which it was produced. In other words, the owner of surplus grain is by that very fact a "speculator." This being the case, and since the speculator takes from the shoulders of the farmer, the dealer and the consumer the risk of ownership, it might naturally be asked, who protects the speculator? The speculator asks for no protection. It is his business, based upon his experience, his training, his knowledge of supply and demand and the capital at his command, to take the chance the marketing of grain affords. The speculator not only does not seek protection, but could get none if he wanted it. If he were absolutely protected in his trading he would cease to be a speculator.

As to the objections to speculation that it raises prices, or lowers prices according to the point of view—it is only necessary to point out that **speculation has always existed where uncertainty existed, that it is the effect of conditions and not the cause of them, that its object and reason for being is to foresee and anticipate price changes by buying and selling and not to create them. Speculation does not make prices but simply registers them.**

When speculation in a commodity proves profitable, it is because in the interval between buying and re-selling the price rises from some cause independent of the speculators, their only connection with it consisting in having foreseen it. The converse of this is also true, that when speculation in a commodity proves profitable to the short seller, it is because in the interval between selling for delivery at a future time, and buying in order to make that delivery, the price declines from some cause independent of the speculators, their only connection with that decline consisting in having foreseen it, and in having exercised a sagacity, intelligence and courage with reference to it not exercised by the majority of their fellows. Speculators do not in any sense hold in abeyance the governing law of supply and demand, much less annul it. The law is irresistible and if they are not conforming to its mandates, they must succumb and pay the penalty.

The Bugaboo of the Grain Exchange

"Short selling" is the grain exchange bugaboo. By what moral or commercial law is it right to sell that which is not possessed? This is the eternal question, which baffles the foe of the grain exchange.

What right had the Governor of Kansas to underbid contractors some years ago, when a railroad was to be built between Kansas City and St. Louis? He sold labor, material and time for future delivery—and he possessed none of it. He probably had a good bank account, but so has every competent speculator. He was a "short seller" and made a half million on the deal. What right has the United States Government to solicit bids on oat purchases for forward delivery a year from date, so that cavalry horses may be fed? The Government buys oats six months before they are grown, yet the Stars and Stripes still float. Without short selling there would be no real speculation. Without speculation there would be chaos in the grain business. A "short" sale means an ultimate purchase. "Short" sales do not unduly

depress markets. They prevent abnormal rises in values, thus protecting the consumer.

Price-Making an Inalienable Right

No man, no edict of a tribunal, legislative or judicial, can prevent one man from stipulating with another to deliver a bushel of wheat, a pound of sugar, a bag of goid, or any other article, at an agreed price, upon a certain date, or during a specified month; nor can any power exempt a seller from liability for the nonfulfillment of the terms of any such stipulation. The right to make such a contract is inalienable. A man possesses the right to agree to deliver any property at such time and prices as may be agreed upon, whether at the time of making such agreement he is in possession of the property under the same terms which attach to his own sale of such property; that property may be wheat, a house, an engine, a railway car, or any other kind of property. The buyer and seller must not be interfered with except when the seller refuses to deliver, or the buyer refuses to pay, according to the terms of the contract. Under no other conditions than these can they be interfered with.

It should hardly be necessary to prove that "short-selling" is an entirely honorable and absolutely necessary practice. It is strange, however, that even in fairly intelligent publications we should so frequently see that the statement that "it is wrong to sell something which the seller does not own." As a matter of fact, this is a most common practice in all lines of business. The jobber sells his canned vegetables and fruits before they are harvested. Canned salmon or other fish are contracted for before they are caught. Salesmen are out taking orders for dry goods when perhaps the material for their manufacture is still on the backs of sheep or in the cotton boll. Contractors obligate themselves to construct buildings the materials for which in many instances have not left their original state. The clergyman contracts to deliver the sermon for a price, although the sermon has not been written. If contracts for future delivery were to be limited in all cases to delivery of things already in possession of the contracting party, business would be hampered in a thousand ways. There is absolutely no reason why a wheat dealer or a flour dealer should not make a contract for the delivery of his commodity three months from date, knowing perfectly well that he can fulfill the contract by securing the necessary article. To call this ethically wrong is simply ridiculous.

Grain Contracts Enforcible

Every contract made on the Chicago Board of Trade is enforcible. The speculator making a trade may have in mind

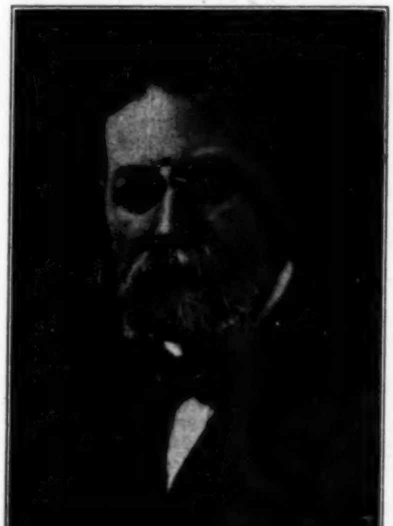
(*Continued on page* 296.)

The Future of the World's Currencies

Dr. Seligman's Interesting Study of Currency Inflation and Public Debts

EDWIN R. A. SELIGMAN, Ph. D., LL. D., and McVickard Professor of Political Economy in Columbia University, has prepared an interesting and comprehensive study of the world's currency system for the Equitable Trust.

Reviewing the experiences of the past



DR. EDWIN R. A. SELIGMAN
McVickar Professor of Political Economy in Columbia University

in currency inflation, Dr. Seligman says:

"The final conclusion from our study is that just because of the interdependence of all great commercial countries in modern times, debt payment and currency reform have become international problems. It is not by impoverishing Germany, or preventing Poland from buying raw materials at what is to them grossly inflated prices, that any recovery is to be expected. No one can improve his own condition by impoverishing his customers. Nor can countries like Great Britain and the United States expect to benefit by an insistence on the immediate payment of the debts due to them by the Allies. Whatever arguments for the retention of these obligations may be advanced from the point of view either of possible political pressure or of a guarantee against some conjectural economic necessity of the future, it is obvious that such gigantic debts can be paid at present only through the medium of exports of goods from the debtor nations, a process which is bound to react disastrously upon the creditor nations by curtailing their exports. What has already happened to Great Britain in the shipping and coal industries is symptomatic of the perils attendant upon our pressing for immediate or speedy payment of the Allied debts.

"Two things only will make it possible for the world to get on its feet again. One is for each country which has fallen into the quagmire of fiat money to set its face resolutely against further temptations, to reduce as far as possible its military and naval expenditures and to put its fiscal house in order by a prompt and vigorous application of taxation with a view of reëstablishing budgetary equilibrium. But a taxation as excessive as that encountered today even in the United States, not to speak of the rest of the world, cannot be continued without hazard. No country can long endure the application of so large a part of the social income for purely unproductive consumption without suffering a marked retardation in the tempo of its economic progress. For it is only out of the setting aside of an appreciable surplus of annual production that a nation's capital can be replenished and the economic resources strengthened. Where this surplus is destroyed, or even nibbled into, by the conversion of the productive consumption of a normal economic life into the unproductive consumption of Government outlay for military or naval purposes, the results are sooner or later bound to be disastrous. In the long run, political security cannot be purchased at the cost of economic debility. The beginning of wisdom is thus obviously some method of limiting armaments, a result that can clearly be achieved only by international agreement.

ALVIN W. KRECH
President of the Equitable Trust Co., New York

In such an agreement even a country like the United States must be prepared for a policy of give and take and, if necessary, must be willing to recede from its old-time political policy of aloofness and isolation.

"But, in the second place, the necessary budgetary equilibrium will be made possible only and concurrently with a stabilization of the exchanges. This is also from the very nature of the case an international problem which must be met by international methods that it is not our function here to discuss.

(*Continued on page* 291.)

About Banks and Banking

The Case for Bank Acceptances—How Should New Enterprises Be Financed?—Where Foreign Trade Information May Be Had

THE mechanics of trade and bank acceptances should be fully understood, since these have become two of the important instruments in modern commerce. Mr. Robert H. Bean, secretary of the American Acceptance Council, has outlined the theory and practice of the acceptance for this MAGAZINE. Secretary Bean said:

"The mission of the trade acceptance is to liquefy credit, improve the turnover and minimize credit losses. To maintain its place as a high grade credit instrument, it will be used with the best class of current accounts.

"The acceptance is used to the best advantage where goods have previously been sold on an open account basis and the credit department record of the customer shows that his account is usually settled with due regard for the credit terms.

"The idea of lending money on call against acceptances as collateral and at a preferential rate is growing in favor, and as this feature develops the market will be strengthened.

"Sound credits are of importance to everybody, particularly to the banker, especially in times of inflation. The trade acceptance needs explanation rather than defense. It has proven its efficiency and beneficence. Its benefits are acknowledged by satisfactory users in every line of business."

Defined as simply as this department can manage it, the bank acceptance is an instrument which enables a business man to obtain cash on a three-month draft, for example, from a bank where he is known, irrespective of whether or not that bank is "loaned up" at the time of the application.

The mechanics, roughly, are as follows: Applicant is permitted to draw on his bank at three months' sight. The bank accepts his draft, and marks it "accepted." The draft then becomes a prime banker's acceptance and has a ready market because of the reputation of the accepting bank. The draft is sold in this ready market, generally by the accepting bank, and cash for it thus obtained.

As Vice-President Rovensky of the National Bank of Commerce has put it, "By this separation of functions the banker's acceptance enables the borrower to tap the great national reservoir of bank funds, otherwise almost unavailable to him. His credit is certified to by his home bank, and thus equipped he enters the national market."

Bank acceptances have also gained wide favor as instruments which enable American manufacturers to meet the credit demands of their foreign customers. Mr. Harold C. Bishop, in American Export Industries, has described this method as follows:

"The simplest way of describing the acceptance method of banking is to say that, instead of a bank lending out the funds which it has on deposit to a customer, or advance its funds when it discounts a draft, it gets the funds for its customer by promising to pay what the customer owes when it is due, so that some other bank that has surplus money will put up the funds. It is a system by which the banks of New York, Philadelphia, Boston, Chicago and other centers where there is a big demand for financing commerce can increase their facilities by taking the risk of credits regarding which they are especially equipped to judge the safety, while hundreds of inland banks supply the funds, out of hundreds of small surpluses that they are glad to invest so safely."

ACTIVE BANK STOCKS

	Dec. 6	Dec. 15
Amer. Exchange National	240-250	243-248
Chase National	280-285	290-294
Chatham & Phenix	275 Bid	265-275
Chatham & Phenix rights	......	36- 39
Chemical National	485-495	485 Bid
First National	900-915	915-940
Hanover	830-840	830 Bid
Irving National	186-191	196-202
Mechanics & Metals	318-323	328-333
National City	320-325	340-345
National Park	405-415	408-415
Seaboard	235-240	240-245

For Foreign Trade Information

A reader has put the following inquiry: Bank Editor, THE MAGAZINE OF WALL STREET:

Sir:—Although the foreign trade field is very much contracted just at this time, we nevertheless feel that we might enlarge our business by actively engaging in that field. Where could we obtain sound advice, and a little co-operation, in this regard?—R. S. R.

The National Park Bank is one of the oldest commercial banks in this country. From the time (1856) when it started business at the old Clinton Hotel, corner of Beekman and Nassau streets, it has pursued a vigorous policy of building business. Among the numerous other "service departments" which it operates, there is a Foreign Trade Department through which, as a bona-fide business organization, you should be able to determine the full and complete facts as to the export possibilities in your line.

Should Leather Business Expand?

Bank Editor, THE MAGAZINE OF WALL STREET:

Sir:—Taking advantage of the privileges of your department offered to readers in your last issue: I am in control of a fair-sized leather goods manufacturing business located just outside of a large city. The business has gotten through the last few months of depression without lasting harm, although we are now, like a good many others, somewhat shorter of cash than we care to be.

"We are interested to know, for purposes of comparison with our own views, what your views are on the future of the leather market; whether you believe that expansion, in anticipation of better conditions, is warranted. Also we would like to see what banks you would recommend our applying to for advice in such matters as these and for practical assistance in any change that it might be found wise to make.—H. S. & Co."

Our views on the future of the leather market are expressed in THE MAGAZINE'S "Trade Tendencies" department, which says: "Generally speaking, indications are

(Continued on page 292.)

Future of Non-Ferrous Metal Prices

Outlook More Promising—Copper's Improved Position—Current Prices

IN sharp contrast to ferrous metals, particularly steel products which have been declining, other branches of the metal market, including copper, silver, tin, lead and zinc have shown either an upward tendency or ability to resist selling pressure.

COPPER prices have been steadily advancing during the past several months and quotations are now 13¾ cents a pound for spot metal against a low price for the year of 11⅞ cents a pound. The trend seems strongly upward on the better statistical position and a price of 15 cents or so a pound within the early future is not an improbability. Producers are in a much stronger strategic position than a few months ago and with the market gradually slipping away from buyers, the situation has greatly changed in this respect.

SILVER has also taken an upturn. Selling at nearly 70 cents for foreign silver against a low price for the year of below 55 cents, conditions have greatly improved. This has been due mostly to a resumption of buying in world markets for the account of the principal silver consuming countries such as China. There has also been more of a disposition to put silver currency into circulation in European countries. The art demand is still sluggish but with general improvement in trade conditions, this source of demand is also likely to show more life.

TIN has been one of the strongest metals this year. Prices are quoted around 30 cents a pound. Tin is susceptible to the London market and as the latter has recently been rising the domestic market has been reflecting this situation. The outlook is for greater industrial consumption and for a higher price level.

LEAD has been more or less uniformly strong this year and quotations are at 4.72½ cents per pound against a low price of about 4 cents a pound. Lead demand is fair at the present, but a much stronger market is looked for next Spring with greater building activity.

(Continued on page 290.)

The Bond Market

Why Municipal Bonds Are Good Investments

Points in Their Favor—The Taxing Power of Municipals—Trend of Municipal Bond Prices

THE security behind municipal bonds is perhaps the chief point in their favor as investments.

The existence of a municipality depends upon the maintenance of its credit. Being a non-money making corporation, the funds necessary for the upkeep or establishment of its sewers, streets, water-supply, etc., must necessarily come from the investing public. The municipality's taxing power, or the required portion of it, is thus funded, the bonds being ultimately paid, principal and interest, by means of taxes levied upon the taxable property within the jurisdiction of the issuing community.

The standard by which all municipal bonds are judged is their legality for New York Savings Banks. The Consolidated Banking Laws of the State of New York govern and limit the class, type and actual bonds that Savings Banks in the State of New York may purchase.

Should a municipality default in payment of principal or interest for a period of more than 90 days, and even though they may comply otherwise with the requirements of the New York Consolidated Banking laws, their bonds are stricken from the "Legal List" for a period of years. If this should happen, the municipality would die a slow but sure death, for there is no reliable banking or brokerage house that would recommend to their clientele the bonds of a defaulted district. This is one of the reasons for the scarcity of default in municipal bonds. The compulsion of a tax payer to meet his taxes when due is about as absolute security as it is possible to obtain.

Should Municipals Be Taxed?

The spirit of the Constitution of the United States has always been construed to be for, "An inseparable union of indissoluble units." It is also agreed that, "the power to tax is the power to destroy," for to tax anything 100% is to destroy it. Thus it can be seen at once that disregarding all recent constitutional amendments and laws, fundamentally it would be a difficult matter to give the federal government the power to tax state instrumentalities without destroying the basic underlying structure of our government.

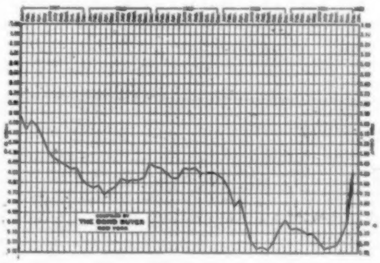
The Sixteenth Amendment gives Congress the "power to lay and collect taxes on incomes from whatever source derived without apportionment among the several states and without regard to any census or enumeration." However, specific provision has been made to exempt from taxation incomes derived from obligations of a state, territory or any political subdivision thereof.

If municipal bonds are to be taxed, which the writer doubts, the Supreme Court of the United States must decide the issue.

Taxable Versus Tax Exempt Bonds

Under the Income Tax Law of 1922 recently passed, the range of total tax (normal and surtax) is from 4 to 58%. Assuming an individual having a taxable income of $50,000, to equalize the net return of a 4¼% municipal bond he must obtain a better than 6¼% on a taxable bond such as a rail, utility, or industrial bond.

Take for instance the highest price tax exempt bonds which have been offered recently (with the exception of the First Liberty 3½s and the Victory 3¾s), the Highway 4¼% bonds of the Commonwealth of Pennsylvania, are offered to the investor to net 4.20%. The $50,000 income man would have to obtain better than 6% on a taxable bond in order to equalize the 4.20% yield. Where can such a bond be obtained, having security equal to the entire taxable assets of the State of Pennsylvania to net 6%? The answer is, it can't be done.



PRICE TREND OF MUNICIPALS

The above curve shows the average market value, expressed in net income basis, of bonds of twenty large cities in the United States

Marketability

A few years ago there were approximately four houses in Wall street that specialized in municipal bonds. At the present time, practically every banking or brokerage house either has a separate municipal department or handles this class of security in its general bond department. This is establishing as broad a trading field and as close a market as any other class of bond. The remarkable manner in which the business has advanced may probably be traced to two causes. First, naturally, the Income Tax Law, secondly, the Liberty and Victory Loan Campaigns.

The Liberty and Victory Loans were the greatest educational and economically beneficial campaigns ever undertaken. The result of which is proving to be one of the basic columns upon which our future world supremacy will rest. It taught the working man and small investor that bonds and stock were issued for purposes other than mining gold or taking the salt out of the ocean.

Before the war a very small proportion of the bond issues were obtainable in $100 and $500 denominations. Now every issue, be it rail, utility, industrial or foreign has its small pieces. The investor has realized the fundamental soundness and possibilities of return of high grade bond investments. He has found that besides putting his money in savings banks at 4% he can help finance the foremost industries of his community and receive a much greater return on his money and still have the same margin of safety that he has in savings institutions.

Price Trend of Municipals

The accompanying municipal bond market index, presented in graphic form from time to time in "The Daily Bond Buyer," a publication devoted to Government, State and municipal securities, is especially interesting at this time as indicative of the remarkable recovery of city bonds from the extreme low level reached as a result of war finance, inflation, etc. City bonds were selling on a basis somewhat below 4% just prior to America's declaration of war with the Central Powers. The general decline in securities which followed our entrance into the war finally carried high-grade city bonds to a basis well over 5%. A recovery in the final quarter of 1920 proved to be only a temporary movement and was practically wiped out by a steady decline during the seven months ended July 1st of the current year. Then came the turn, and values started to improve. In July and August, prices advanced only fractionally but the market gained strength daily and the foundation was laid for the abrupt ascent pictured in the chart. To express differently what this sheer rise means, it might be stated that the advance in the price of New York City 4½s of 1965 since July 1st has exceeded twelve points.

It is also notable that the rising market of July to December of this year was accompanied by the heaviest output of new State and municipal securities on record. For the period mentioned, new flotations were in excess of $575,000,000, or greater than the entire output of such bonds in 1916, a normal pre-war year. The total for the current calendar year will exceed a billion dollars.

Since the foregoing was written announcement has been made of the sale of New York City bonds to a banking syndicate on a 4.35% basis—the record low price for bonds of this municipality and an interesting pointer on the trend of municipal credit.

Where an 8% Bond Yield May Still Be Obtained

Good-Grade Issues of Companies Which Merely Did Poorly Last Year Offer the Opportunity

By **FRED L. KURR**

IN view of the very substantial advance in the bond market over the past several months high grade bonds are no longer available at prices to yield the investor from 7% to 8% on his investment. Thoroughly seasoned issues that are entitled to a high rating at the present time can not be obtained on a yield basis of much over 6½%. In order to get a higher yield on bonds, combined with a fair amount of safety, it is necessary to select some of the less seasoned securities, or go into the foreign Government issues.

This article will take up a few of the newer issues that, to all intents and purposes, are well protected and that can now be purchased at prices to yield close to 8%. This would appear to be a rather high yield to obtain with reasonable safety, but if the reader will carefully study the facts and figures given below he will readily see that the security behind these issues is very large indeed. Apparently the reasons why these issues give such an attractive yield is, first, because they have been recently put out and, second, because the earnings of the companies in the past year were poor due to the general depression in business. Of course one hesitates to purchase the bond of a company that has barely covered interest charges in the past year or has perhaps shown a deficit, but if the security behind the bond is unusually large, the past record good and the management responsible, a poor earning power in a period of depression can be overlooked.

In the accompanying table the strong features of the bonds recommended are clearly shown. It will be noted that all of the five issues described have generous sinking fund provisions and that the net quick assets of each company are in excess of the bond issue.

THE LIST

	Total Issue	Net Liquid Assets	% Net Liquid Assets to Bonds	Annual Sinking Fund	Maturity	Price	Yield
United Drug 8s	$15,000,000	20,100,000	133%	5%	1941	104	7.5%
Otis Steel 8s	5,000,000	7,350,000	147%	5%	1941	99	8.1%
Packard Motor 8s	10,000,000	22,400,000	224%	10%	1931	100	8%
Central Steel 8s	5,000,000	5,280,000	105%	5%	1941	100½	7.9%
Pierce Oil 8s	2,000,000	7,300,000	365%	10%	1931	100	8%

Packard Motor 8s

Maturing 1931—Yield 8%

Packard Motor Car Co. 8% gold bonds due 1931 are a direct obligation of the company which has no other funded debt. They are issued under a trust agreement containing among other provisions, restrictions regarding the company or its subsidiaries mortgaging any of their plants, and obliging them to maintain current assets equal in the aggregate to at least 175% of their total liabilities including these bonds. As of August 31, 1921, the company's working capital was approximately $22,400,000 and the property investment $21,596,536. The company's valuation of its property is generally regarded as being decidedly conservative. Good will, patents, rights, etc., are carried on the balance sheet at $1. It can be seen, therefore, that the assets behind these bonds are well over four times the total issue.

Under the sinking fund requirements the company must set aside $1,000,000 each year to be used for the purchase of these bonds in the open market at not exceeding 105.

For the year ended August 31, 1921, the company reported an operating loss of $987,366, as compared with net profits of $6,395,468 in the preceding year. After charging out a contingency reserve of $2,500,000 and dividends of $1,346,410 there was a deficit for the year of $4,833,776. In connection with these poor earnings it is important to note that the Packard Co. during this year brought out its new light six model. This necessitated the expenditure of several millions that should be regarded as unusual expense, not likely to be incurred again, and of course the twelve months ended August 31, 1921, covered a period of poor business and falling prices necessitating the taking of heavy losses on inventory.

For the five years ended August 31, 1920, earnings of the Packard Motor Co. have averaged more than 11¼ times the interest charges on these bonds after liberal deductions for depreciation.

Especially in the case of automobile concerns is the question of management important. Packard management is highly regarded in both banking and automobile circles. It has stood the test of time and has made a remarkable record of achievement. Putting out the new light six has been expensive, but from a sales standpoint it has been a decided success. The management recently officially announced that the plants of the company will operate at full capacity during the Winter months, which few automobile companies will undertake to do. "This will be accomplished by the deep cut in the price of the single six recently announced to prevail during the winter months."

In view of the large assets, strong financial condition and past record of this company the 8% bonds at present price of about 100 look like a rather unusual investment opportunity.

Otis Steel 8s

Maturing 1941—Yield 8.1%

Otis Steel Co. first mortgage 8s, due 1941, are secured by a direct first mortgage on the entire fixed properties now owned and hereafter acquired. This is an old established concern, the business having been first started in 1873. Its principal products are steel plates, sheets, casings, pig iron and coke products. Customers include boiler manufacturers, railroad companies, shipbuilders, automobile manufacturers, oil companies and machinery concerns.

As has been the case with practically all the independent steel manufacturers, this company has not been able to make any money in the current year. In previous years, however, it has shown a good earning power. **For the four and a half years ended June 30, 1921 net profits, after depreciation, averaged per annum about 10 times the interest on the present bond issue, before deducting Federal taxes. After taxes the balance was equal to about 5¼ times the annual interest charges. Net profits available for interest for the year 1920, after provisions for Federal taxes were approximately four times the interest charges.**

There is undoubtedly a very large equity behind these bonds. As of June 30, 1921, net quick assets alone were $7,350,000. The physical property is carried on the books of the company at $16,099,583, and securities owned at $1,404,124. The total of these assets is nearly five times the $5,000,000 bond issue.

A sinking fund provides for the retirement through redemption or purchase of $250,000 of the bonds annually. They are redeemable in whole or in part at the option of the company on 6 weeks' notice on any interest date up to and including August 1, 1924, at 110 and interest; on any interest date thereafter at 107½ up to August 1, 1926; thereafter at 107½ less ½ for each twelve months or part thereof elapsed after August 1, 1926.

Plants of the Otis Steel Co. have a combined annual capacity of 360,000 tons of pig iron and 450,000 tons of finished steel products.

At present price of 99 the yield is 8.10%, which appears attractive considering the assets behind the issue. These bonds are traded in on the New York Curb market.

United Drug 8s

Maturing 1941—Yield 7.5%

United Drug Co. 8% convertible bonds, due 1941, are a direct obligation of the company, and together with the $2,750,000 5½ year notes constitute the sole

funded debt of the company and its subsidiaries, with the exception of certain real estate mortgages aggregating $1,022,840. The indenture under which the bonds are issued provides that no new mortgage can be placed on any of the property or assets, unless the present issue of bonds is equally secured thereby, and that the ratio of quick assets to quick liabilities of the company and its subsidiaries shall be maintained at least 125% of the total amount of bonds and notes outstanding. In case such ratio is not maintained no dividends are to be paid on the common stock until its ratio has been restored.

As of June 30, 1921, working capital of the company was $20,175,887, as compared to total bonds and notes of $15,000,000. Fixed tangible assets are carried on the company's books at about $29,000,000, making a total asset value behind the bonds of $49,175,000. Of course this takes no account of good will which, in the case of a company such as United Drug, can be regarded as immensely valuable.

For the past several years earnings of United Drug has been showing a steadily increasing tendency, and it was only in the current year that earnings declined. Of course the reason for this decline was the shrinkage in inventory values and a general slowing up in business. However, for the first six months of 1921 the company succeeded in earning its preferred dividends and the second six months are expected to be better. **In 1920 the company earned $11.02 a share on the common stock, as against $10.96 in 1919. For the three years ended Dec. 31, 1920, earnings averaged over three times the interest requirements on the present funded debt.**

A sinking fund provides for the purchase in the open market of 5% of the largest amount of the bonds issued at 115 and interest.

The bonds are convertible into common stock up to 1931 at 110 a share. They are listed on the New York Stock Exchange, and at present prices of around 104 the yield is about 7½%. This company came through the period of depression in fairly good shape, all things considered. It was inevitable in the face of an expansion that has trebled the company's sales in four years that this company would have to do some financing. With its floating debt funded into long time bonds, United Drug is in a position to continue the same steady increase that has featured its operations in the past. The bonds are followed by $16,505,000 preferred stock on which dividends are being paid, and $33,925,100 common on which dividends were paid up to June of this year. These bonds would appear to be entitled to a rather high rating.

Pierce Oil 8s

Maturing 1931—Yield 8%

Pierce Oil Corporation 8% debentures, due 1931, constitute the only funded debt of the company, except approximately $150,000. The company cannot issue any other funded debt while these debentures remain outstanding.

This company owns five oil refineries having an aggregate capacity of 48,000 barrels, and a plant at St. Louis for the manufacture of greases and lubricating oils, also directly or through subsidiaries, oil leases aggregating 74,299 acres, pipe lines, tank ships and other equipment. Net quick assets at the present time total about $7,300,000, or over three times the bond issue of $2,000,000.

For the six months ended June 30, 1921, a deficit of $2,248,133 was reported, but this was after deducting inventory losses of $2,383,510 and depreciation of $592,258. The recent advances in the price of crude oil have been of material benefit to the company, and it is anticipated that the last six months of 1921 will show a good profit. **In the past this company has shown an excellent earning power and earnings in no year from 1911 to 1920 inclusive have been less than 5¼ times the interest charges on this issue.**

A sinking fund of $200,000 annually is provided, to be used for the purchase of these bonds in the open market up to 107½. The bonds are callable as a whole on 60 days' notice at 107½ and interest.

Recently the Lewisohns became the dominant interests in the company, and a more efficient management is expected to result. It is anticipated that dividends will be restored on the preferred stock in the near future.

At present price of around par the yield on these bonds is 8%. They are dealt in on the New York Curb. Considering the past record of this company, the large assets behind the bonds and the fact that a new management that is generally well regarded has taken charge of the company's affairs, these bonds appear well worthy of consideration.

Central Steel 8s

Maturing 1941—Yield 7.9%

Central Steel Co. first mortgage 8s, due 1941, are secured by a direct closed first mortgage on the entire fixed property now owned and hereafter acquired. Based on an appraisal made in 1921, by the American Appraisal Co., the real estate, plants and equipment (less depreciation), are valued at $16,231,570. As of August 31, 1921, net quick assets were $5,278,441, making a total of $20,899,185 net tangible assets behind the $5,000,000 bond issue.

Earnings in the current year have, of course, been poor, but it is stated that for the quarter ended September 30, the company will show a profit after allowing for depreciation. For the five years and eight months ended August 31, 1921, net profits, after allowing for depreciation and Federal taxes, averaged $1,721,786, or 4.3 times the annual interest charges on the bonds. Earnings for the year 1920 were equal to 5.49 times the interest charges on these bonds.

The plants of the company are located at Massillon, Ohio, and have an annual capacity of 350,000 tons billets, slabs, bars, etc., and 210,000 tons of finished products.

A sinking fund provides for the purchase of 5% of the issue annually in the open market at 107½ or better. These bonds are not callable prior to maturity.

At present price of about 100½ the yield is 7.95%. They are dealt in on the New York Curb. This company has shown a steady growth for the past several years, sales in 1916 were only $11,640,000, as compared with $34,752,000 in 1920. This is a remarkable increase and fully explains the necessity of the recent financing. The fact that the company was able to show a profit in the September quarter of the current year indicates an efficient organization, as most steel companies reported a deficit for that quarter.

Have Bonds Risen Too Fast?

City Bank Discusses Recent Advance in Prices

The bond market has had an almost uninterrupted rise which set in toward July, last, and has continued since. The price advances recorded have been really phenomenal, at least when contrasted with previous movements in this market, and have brought forth the question in some quarters of whether a substantial reaction is not due.

The question is treated in an interesting fashion by the National City Co. in its current review. Referring to a previous period, when new offerings kept bond prices down, the Bank says, in part:

During the last few months there has been a scarcity of new issues with the result that the demand from investors, institutions and corporations has taken the floating supply of bonds out of the market and higher prices have inevitably followed. There is another important development in the investment situation and that is the growth in the number of bond distributors throughout the United States. This means that every nook and corner of our entire country is thoroughly canvassed through the agencies of the large national houses and the local dealers and the new issues are split up into very small parts in the hands of a great many individuals.

The advance of the past few weeks should, therefore, not be a surprise to the investing public for it has been anticipated for several months past and there is every indication that prices have moved to a higher level and will continue there for some time to come. In this connection it is interesting to note that a comparison of the average prices of fifteen representative railroad, public utility and industrial issues since 1906 shows that the average low prices of these issues in 1907 was 2½ points higher than the present high prices, while the average low for the rails in 1907 was 5 points higher than present high prices for the same issues. The low for public utilities in 1906 was 2 points higher than the high prices of today. The recent advances, therefore, have not yet carried the standard issues above the low prices of the past fifteen years and these indications would seem to answer most conclusively in the negative the question so often asked today—"Are bond prices advancing too rapidly?"

Bond Market Recedes a Little

Various Groups of Bonds React Under Profit-Taking—Individual Securities Make Further Gains—Strength in Public Utility Issues

VIEWED broadly, the bond market seemed to enter a new phase during the past two weeks. There were many signs of weariness after the exceptionally prolonged rise in practically all departments. Selling pressure became more noticeable, the main incentive being to take the large profits which had been accumulated through practically three months of uninterrupted advance in the bond market. There were various other minor factors such as the weakness in speculative railroad stock issues to account for individual weakness in speculative railroad bonds, and new financing by several industrial companies to account for the decline in those securities, but otherwise, the underlying reason for the comparative irregularity of the bond market was the weak technical position after the enormous advance.

While the underlying factors—such as lower money rates, surplus investment demand, higher foreign exchange and the tendency toward improvement in business—which were mainly accountable for the rise in securities are still operative and will, no doubt, ultimately result in still higher prices for representative securities, the present outlook is that most grades of bonds will find a temporary resting place at around these or possibly lower levels, from which they will later resume their advance.

The Money Situation

Since this is the principal factor in the movement of investment securities, it is of importance to estimate the probable outlook. The broad tendency this year has been downward, which is illustrated by the fact that since the beginning of the year time money has declined from about 8% to 5% and commercial paper has declined in about the same proportion. The money market at present rests practically on a 5-5¼% basis. At the same time Government credit is on a 4¼% basis compared with approximately 5¼% a year ago.

High-grade bonds have closely paralleled the movement of money rates and, as indicated by the graph on the Index of Corporate Credit contained in our monthly series of graphs, published elsewhere in this issue, such securities are no longer obtainable above a 5.10% yield basis compared with 6% toward the end of last year. In other words, the yield on high-grade bonds, as an average, is closely identical with current money rates.

It is doubtful that the yield basis of such securities can remain permanently under the level for money rates and therefore the future movements of bond issues must be dependent on the course of money rates. It is not deemed probable that there will be any large decline in such rates during the early future, which is tantamount to forecasting a period of quiet or possibly a slight downward movement in the value of most bonds, except those which are affected by special considerations. This, of course, applies particularly to the high-grade bonds, there being plenty of opportunities among the second-grade and speculating issues.

The "spread" between high-grade and second-grade and speculative issues. and the same is true of the "spread" between second-grade and speculative issues. Subsequent bond movements from this time on should result in closer alignment between these three great groups of bonds.

New Offerings

Chief among the new offerings are the new Treasury 4¼% notes which were heavily over-subscribed and which probably required considerable scaling-down of allotment at the rate at which the subscriptions were coming in at the time of writing. Another impotrant issue was New York City 4½s to the amount of $55,000,000 now being traded in at slightly over par on the "when issued" basis. The Great Northern road is making application to issue $30,000,000 bonds partly for refunding purposes and partly for repair and purchase of equipment. There were numerous small issues of municipal bonds and a fairly large number of industrial issues, including the $3,000,000 20-year 7½s of the Godchaux Sugar, Inc. Generally, the reception of the new issues has been favorable and there seems to be little abatement of investment demand where the issuing factors are in solid repute.

Railroad Issues

Action of the gilt-edged railroad issues was pretty much as expected considering their previous large rise. With the exception of the Union Pacific 1st mortgage and land grant trust 4s, most of the issues in our Bond Buyers' Guide either lost ground or made gains which were negligible. Very likely, this group will temporarily resist an upward impetus and prices should gradually settle down to around present levels until the next broad advance.

The middle-grade railroad bonds with only two exceptions—Atchison gen. 4s and the St. Louis Southwestern 1st mtge. 4s—were reactionary in sympathy with the downward tendency of more or less speculative stock issues among the railroad group.

In the speculative division, some fairly large losses were recorded as a response to the same influence which governed the movement of middle-grade bonds. Western Maryland 1st mtge. 4s were particularly weak losing 3½ points and the Missouri Pacific gen. mtge. 4s lost 2¼ points. Minneapolis & St. Louis cons. mtge. 5s were exceptional for their strength, gaining a full 2½ points.

Industrial Bonds

Results for the industrial high-grade issues were not very conclusive but at least indicated that for most issues, the advance had been checked. About half these issues recorded gains and the other half losses. Corn Products 5s made a striking gain of 4 points on an extremely limited turnover suggesting that the floating supply of this sterling bond is extremely small. Incidentally, the pronounced strength of the common stock of this company must have had some effect on the higher market valuation of the bonds. United States Steel sinking fund 5s came very close to reaching par.

Losses and gains were about equally divided among the middle-grade industrial issues. Fluctuations in nearly all instances, were unusually large, indicating the speculative impulse existing in these securities. Wilson & Co. 6s lost 2 points owing to the new $10,000,000 bond issue of the company but the effect of this financing should only be temporary as the integrity of the bonds is not touched. Contabulating, Tabulating & Recording 6s reached 91 on a very limited turnover, as these bonds are closely held. Lackawanna Steel 5s made a gain of 2¾ points in sympathy with the greater strength of the stock. International Mercantile Marine 6s lost a little ground and on any further setback should be picked up as these bonds are undoubtedly among the most attractive in the entire industrial list. American Smelting 5s made a small gain but the trend is still upward and further improvement in the industry will be reflected by higher prices for this old-time issue.

The speculative industrial list was almost uniformly weak. American Writing Paper 7s lost 2¼ points which was not surprising considering the incentive to sell at these levels for fortunate investors who managed to acquire this issue when it was selling 15 points lower. Chile Copper 6s, notwithstanding the great advance of the stock, made little response and in fact lost a little ground.

Public Utilities

The public utility issues, with the exception of the more speculative type made the best showing of all groups in the bond market. Some excellent gains were recorded. In the gilt-edged group, Pacific Tel. & Tel. 5s particularly distinguished themselves with a gain of 2¼ points under the influence of the announcement that an extra dividend of 2% had been declared on the common stock. Philadelphia Company 6s, so often recommended in these columns, made a striking gain of 5 points. These bonds even at the added price are still attractive considering their relative safety and large yield. Montana Power 5s also were very strong with an advance of 3¼ points to their credit. The only weak issue was American Tel. & Tel. 5s but this was undoubtedly due to profit-taking.

The middle-grade public utilities were uniformly strong, every issue in the Bond Buyers' Guide showing a gain, in several instances, of impressive proportions. Brooklyn Union Gas 5s rose 3 points and Brooklyn Edison 3⅝ points. Detroit

Edison 5s made a gain of 2½ points.

The speculative public utilities did not make such a good showing. Interborough Rapid Transit 5s suffering particularly under the influence of the investigation into the history of the financial side of these properties. The Third Avenue refunding 4s also lost some ground, in sympathy. Public Service Corporation of N. J. made a gain of 1¾ points.

Conclusion

A summary of events in the bond market during the past two weeks reveals no especial weakness, except that due to natural causes particularly profit-taking. Some groups, such as the public utilities, which had not sufficiently discounted either the improvement in the money situation or in the public utility situation at large, were conspicuous for their strength.

It is likely that the next few weeks will be marked by a settling-down process on the part of those issues which advanced the most during the past few months. In instances, where general improvement has not been sufficiently discounted, further improvement may be expected to continue. Generally speaking, the underlying situation is as strong and perhaps stronger than at any time this year, the only weakness being due to those of a purely technical nature, which will undoubtedly be eliminated in due course of time.

In This Issue

The subjoined table lists the companies whose securities are analyzed in this issue of The Magazine of Wall Street.

BOND BUYERS' GUIDE

		Apx. Price	Apx. Yield	Int. Earned‡
	Foreign Governments. BETTER GRADE.			
1.	U. K. of Gr. Britain & Ireland (c) 5½s, 1937	94⅝	6.00	...
2.	Kingdom of Sweden 6s, 1939	95⅛	6.45	...
3.	City of Copenhagen (b) 5½s, 1944	88	6.55	...
4.	Dominion of Canada (c) 5s, 1931	95½	5.55	...
5.	Argentine (c) 5s, 1945	76½	7.05	...
6.	City of Zurich (b) 8s, 1945	108	7.25	...
7.	City of Christiania (b) 8s, 1945	107½	7.30	...
8.	Danish Municipal (b) S. K. 8s, 1946	108	7.30	...
	MORE SPECULATIVE.			
1.	Kingdom of Belgium (a) 6s, 1925	95¾	7.40	...
2.	Kingdom of Italy (d) 6½s, 1925	91½	9.05	...
3.	Republic of Chile (b) 8s, 1941	102½	7.75	...
4.	Sao Paulo (b) 8s, 1936	102	7.75	...
5.	U. S. of Brazil 8s, 1941	104½	7.60	...
	Railroads. GILT EDGE.			
1.	Balt. & Ohio S. W. Div. (b) 1st Mtg. 3½s, 1925	87	7.30	.80
2.	Ches. & Ohio (a) Genl. Mtg. 4½s, 1992	83½	5.40	1.55
3.	Delaware & Hudson (a) 1st & Ref. 4s, 1943	87½	4.90	1.65
4.	Southern Pacific (b) 1st Ref. 4s, 1955	85½	4.85	2.40
5.	Chic., Burl. & Quincy (a) Genl. Mtg. 4s, 1958	86⅛	4.80	3.65
6.	Union Pacific (b) 1st Mtg. & L. G. 4s, 1947	83¼	4.75	3.95
7.	N. Y., Chic. & St. Louis 1st Mtg. 4s, 1937	84⅝	5.40	2.35
8.	Atlantic Coast Line (a) 1st Mtg. 4s, 1948	84¼	5.05	2.20
9.	Pennsylvania (a) Genl. Mtg. 4½s, 1965	86⅜	5.25	2.00
10.	West Shore (a) 1st Mtg. 4s, 2361	77	5.25	**
11.	Norfolk & Western (c) Cons. 4s, 1996	85¼	4.75	3.95
12.	Central R. R. of N. J. (a) Genl. Mtg. 5s, 1987	102	4.85	1.40
13.	Atchison (b) Genl. Mtg. 4s, 1995	85¼	4.70	3.90
14.	Chic., R. I. & Pacific (a) Genl. Mtg. 4s, 1988	80	5.05	1.00
	Industrials.			
1.	Diamond Match (c) Deb. 7½s, 1935	107	6.70	†
2.	Armour & Co. (a) R. E. 4½s, 1939	86⅜	5.75	6.75
3.	General Electric (b) Deb. 5s, 1952	96¼	5.25	5.55
4.	International Paper (a) 5s, 1947	87¾	5.95	16.70
5.	Indiana Steel (a) 5s, 1952	95½	5.25	**
6.	Liggett & Myers (aa) Deb. 5s, 1951	91½	5.55	4.80
7.	Baldwin Loco. (a) 5s, 1940	99½	...	2.65
8.	National Tube (a) 5s, 1952	96¼	5.35	**
9.	Corn Products (a) 5s, 1934	98	5.25	60.70
10.	U. S. Steel (a) 5s, 1963	98⅝	5.05	8.70
	Public Utilities.			
1.	Duquesne Light (b) 6s, 1949	101	5.95	3.40
2.	Pac. Tel. & Tel. (a) 5s, 1937	93¼	5.65	1.75
3.	Amer. Tel. & Tel. (c) 5s, 1946	91	5.65	4.80
4.	N. Y. Telephone (c) Ref. Mtg. 6s, 1941	100⅜	5.95	**
5.	Montana Power (c) 5s, 1943	94¼	5.45	2.90
6.	Cal. Gas & Electric (a) 5s, 1937	94⅛	5.55	**
7.	Philadelphia Co. (c) 6s, 1944	95½	6.25	4.15
8.	N. Y. G., E. L., H. & P. (a) 5s, 1948	91⅝	5.60	2.10
	Railroads. MIDDLE GRADE.			
1.	Southern Pacific (b) Col. Trust 4s, 1949	79	5.45	2.40
2.	Illinois Central (b) Col. Trust 4s, 1952	79½	5.35	2.25
3.	Balt. & Ohio (b) 1st Mtg. 4s, 1948	77½	5.65	.80
4.	Norfolk & Western (a) Conv. 6s, 1929	105	5.20	3.95
5.	Atchison (a) Conv. 4s, 1960	89	4.65	3.90
6.	St. Louis-San Fran. (a) Prior Lien 4s, 1950	68¼	6.45	1.60
7.	Cleve., Cinn., Chic. & St. L. (a) Deb. 4½s, 1931	87½	6.20	2.40
8.	Ches. & Ohio (b) Conv. 5s, 1946	85½	6.15	1.55
9.	Pere Marquette (c) 1st Mtg. 5s, 1956	89	5.75	2.05
10.	Kansas City Southern (a) 1st Mtg. 3s, 1950	64	6.15	1.70
11.	N. Y., Chic. & St. Louis (a) Deb. 4s, 1931	82⅝	6.35	2.35
12.	St. Louis Southwestern (a) 1st Mtg. 4s, 1989	75⅛	5.85	2.00
	Industrials.			
1.	Wilson & Co. (a) 1st 6s, 1941	96	6.35	2.10
2.	Comp. Tab. & Recording (b) 6s, 1941	91	6.85	5.45
3.	Adams Express (b) 4s, 1948	75	5.85	2.00
4.	Int. Merc. Marine (b) 6s, 1941	90¼	6.90	5.15
5.	Lackawanna Steel (c) 5s, 1950	84½	6.15	6.90
6.	Bush Terminal Bldg. (a) 5s, 1960	82½	6.15	2.35
7.	U. S. Rubber (c) 5s, 1947	80	6.05	5.00
8.	Amer. Smelting & Refining (c) 5s, 1947	87	5.95	9.55
9.	Goodyear Tire (c) 8s, 1941	111	6.95	x
10.	Du Pont de Nemours (c) 7½s, 1931	109¾	6.95	...
	Public Utilities.			
1.	Detroit Edison (c) Ref. 5s, 1940	91½	5.75	2.80
2.	Brooklyn Union Gas (a) 5s, 1945	92	5.65	1.35
3.	Northern States Power (b) 5s, 1941	88⅜	5.95	1.80
4.	Brooklyn Edison (c) 5s, 1949	92½	5.55	2.20
5.	Utah Power & Light (a) 5s, 1944	85½	5.95	1.80
6.	Cumberland Tel. & Tel. (b) 5s, 1937	89	6.10	1.70
	Railroads. SPECULATIVE.			
1.	Western Maryland (a) 1st Mtg. 4s, 1952	60	7.25	.70
2.	Iowa Central (a) 1st Mtg. 5s, 1938	75½	7.55	**
3.	St. Louis Southwestern (a) Cons. Mtg. 4s, 1932	71½	7.95	2.00
4.	St. Louis-San Francisco (a) Adj. Mtg. 6s, 1955	72¼	8.50	*1.90
5.	Southern Railway (a) Genl. Mtg. 4s, 1956	62½	6.85	1.85
6.	Missouri Pacific (b) Genl. Mtg. 4s, 1975	60½	6.75	.90
7.	Carolina, Clinch. & Ohio (c) 1st Mtg. 5s, 1938	85½	6.40	1.40
8.	Minneapolis & St. Louis (a) Cons. Mtg. 5s, 1934	75	8.15	.50
9.	Denver & Rio Grande (c) 1st Ref. 5s, 1955	46⅞	11.05	1.15
	Industrials.			
1.	Chile Copper (b) 6s, 1932	84½	8.15	3.80
2.	Va.-Carolina Chemical (c) 7½s, 1932	95½	8.10	2.75
3.	American Writing Paper (a) 7s, 1939	83¾	8.85	1.90
4.	American Cotton Oil (a) 5s, 1931	..	...	3.15
	Public Utilities.			
1.	Hudson & Manhattan (c) Rfdg. 5s, 1957	74½	6.95	*1.60
2.	Intr. Rapid Transit (a) 5s, 1966	53	9.55	*2.60
3.	Third Avenue (b) Refg. 4s, 1960	57½	7.30	*1.20
4.	Public Service Corp. of N. J. (a) 5s, 1959	76¼	6.75	1.50
5.	Va. Rwy. & Power (a) 5s, 1934	..	...	1.90

(aa) Lowest denomination, $5,000. (b) Lowest denomination, $500.
(a) Lowest denomination, $1,000. (c) Lowest denomination, $100.
(d) Lowest denomination, $50.

xThis issue was created on May 1, 1921.

†This issue, which represents the entire funded debt of the company, was created on Nov. 1, 1920.

*Number of times over interest on these bonds was earned.

**Earnings are not reported separately.

‡This represents number of times interest on the companies' entire outstanding funded debt was earned, based on actual earnings of last five years.

Railroads

How Will Railroads Fare in 1922?

Why an Optimistic View Is Justified—The Outlook for Operating Costs—Will Rail Securities Go Higher?

By **ARTHUR J. NEUMARK**

LOOKING back over the hectic experiences of the railroads in the past two and a half years and remembering the discouragement that prevailed not long ago as to their outlook, it is a real pleasure to now be able to say that the outlook for the coming year is far from gloomy; in fact, that outlook is brighter than it has been at any previous time since the Government of the United States tried its hand at railroad operation.

The recollection of the past two years in railroading is still a vivid one—years that were in striking contrast to each other and whose results were paradoxical in the extreme.

The year 1920 was featured by the heaviest volume of traffic ever handled by the roads. Nevertheless, so far as actual operating profits were concerned, it was the worst year in railroad history. The year 1921, on the other hand, saw volume of traffic reduced to the smallest figure in five years, and yet, in this latter year, the roads made, from actual operation, considerably more money than they had made in 1920.

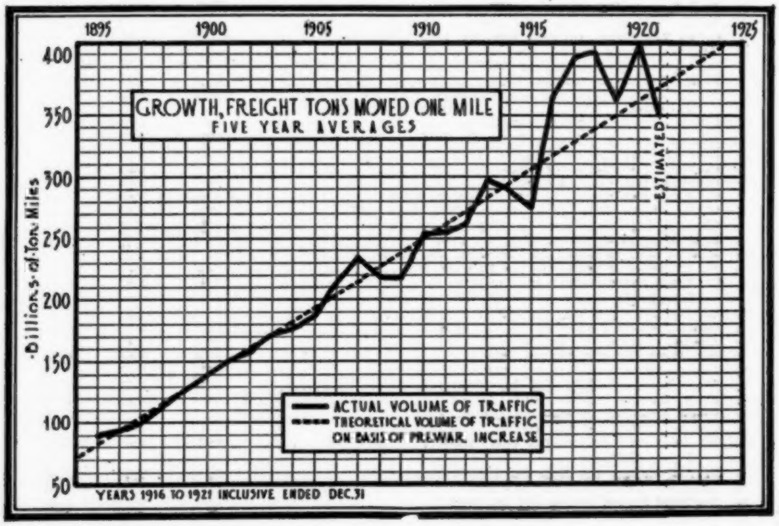
Students of railroad operation know how to account for these paradoxical results. They know that, in 1920, the roads had to contend with innumerable severe handicaps. They are familiar with the burden that had to be borne in the form of excessively high operating costs and they remember the injurious effects of the National Working Agreements instituted by the Government during the war. Knowing these things, these students can readily account for the miserable financial results scored in 1920 in spite of unusually heavy traffic.

The results in 1921 are similarly understandable. First and foremost, after ten months of private operation, the roads had had time to get back into their stride. Secondly, the cost of fuel and materials and supplies declined heavily. Thirdly, the unhampered managements were able to apply drastic measures of economy in all phases of operation.

The lesson of the past two years is obvious. It has been proven that a smaller volume of traffic, if it be accompanied by lower operating costs, is preferable to a record volume of traffic with the expense account beyond control.

Indications are that the former condition is going to exist in 1922; and there are excellent possibilities of a very heavy freight movement toward the latter part of the year without the accompanying evil of a tremendous increase in cost of operation.

Any estimate or prediction as to how the railroads are going to fare in the coming year has to be predicated upon the outlook for business conditions. The outlook for business in general is very ably discussed in articles appearing elsewhere in this issue. The conclusions presented in those articles are based on a sound knowledge of existing conditions throughout the country, and in the opinion of the writer may be conservatively used as the basis for a general estimate of the volume of traffic that the roads may be expected to handle.



The Freight Movement Graph

Freight movement can best be measured by the annual number of ton-miles, or in other words the number of freight tons moved one mile in a year. The accompanying graph gives a very clear picture of the growth in traffic since 1895.

One of the striking points brought out by this graph is the fact that the actual growth in freight ton miles in the long run is following the theoretical line indicating the normal trend of ton miles on the basis of the pre-war record. In other words, disregarding the abnormal jump in the number of ton-miles during the war period, and the consequent abnormal reaction after this period of inflation, we find the ton-mile performance once more seeking its normal level and likely to continue in the even tenor of its way. **Therefore, if the expected improvement in business materializes in the coming year the freight ton-miles figures should come very close to what it would have been on the normal pre-war trend.**

This theoretical line comes very close to forecasting the logical trend; and barring any abnormal development in business conditions in the next three years, its picture of the 1920 volume of traffic not being reached again before 1924 is very likely to prove an accurate one.

Are the Railroads Prepared?

One reads a good deal nowadays to the effect that the railroads are unprepared to meet the growing needs of the country. In the writer's opinion much of this talk is premature. Unless this country is to be struck by a whirlwind of business almost over-night the roads should be well able to handle any likely expansion for the next two years at least.

However, the railroads will need three important things on a large scale, probably no later than June 1, 1923, and they are:

(a) Considerably more equipment.
(b) More feeders and branch lines.
(c) Larger terminal facilities.

For the next two years business requirements are not likely to tax the roads beyond their present facilities. In the meantime, the writer believes railroad credit will be again restored. Thereafter, plenty of capital should be available to permit the carriers to carry on the expansion program which they abandoned in the last two years.

The railroads will undoubtedly be prepared when the country again calls on them for greater facilities.

Freight Rates

In a previous paragraph the writer outlined what the freight movement in 1922 would probably amount to. It might not be amiss to point out here what part freight rates are likely to play in this estimated freight movement.

Much has been said concerning the damaging effect of freight rates on the free movement of commodities in 1921. There has been a wide-spread attempt by large business interests, especially in the agricultural class, to place a large share of the blame for the industrial depression of 1921 squarely on the shoulders of the railroads because of the high freight rates charged. This seems absurd. It makes the mistake of placing the cart before the horse.

It should be clear to every one who has followed economic conditions throughout the world in the past twenty-four months that the causes of depression were much more deeply rooted. Furthermore, freight rates never soared to the levels commodity prices did; and when the crash in commodity prices came and freight rates remained practically unchanged, it was illogical to cite the rates as the cause of depression or the obstacle to a return of prosperity. Such reasoning might have been all right if an immediate reduction in rates could have possibly stimulated or changed the real status of the industrial situation in general. But to place any of the blame for the protraction of the 1921 depression on freight rates is a misconception.

No one will deny that in order to stabilize conditions on a lower price level the railroads must do their share by reducing freight rates. This has been done on a large scale within the past sixty days, and the roads have thus laid the foundation for what will prove to be a big aid to business in 1922.

Let the writer make himself clear on this point—**Reduced freight rates will not bring about a revival in business, but they will be an important cog in the wheel in making a greatly increased volume of traffic possible.**

Lower Operating Costs

Without a substantial reduction in the cost of operation a reduction in freight rates would be an impossible accomplishment, and without lower operating costs any increase in the volume of traffic handled would be wasted and would result in very much the same performance as in 1920. An all-important question therefore is **"How will the 1922 cost of operation compare with that of 1920 and 1921?"**

In the final analysis, it is the cost factor which will probably determine how good or how poor a year 1922 is going to be. In the early part of this review the difficulties which beset the roads in 1920 were mentioned. The following changes in operating conditions since 1920 have already taken place:

1. Government control has been terminated.
2. Cost of bituminous coal has dropped about 66% from the average price of 1920 and about 80% from the peak price of 1920.
3. Cost of fuel oil has declined about 33% from the 1920 level.
4. Cost of materials and supplies have declined anywhere from 30% to 50%.
5. Wages were cut on an average of 12½% since 1920.
6. The National Working Agreements have been considerably modified.

and the following further developments are pending which will further reduce the cost of operation:

1. A further reduction in wages of between 10% to 20%.
2. Further radical changes in the working rules of employees as instituted by the National Agreements.

The changes made by the United States Labor Board in working conditions affect some 450,000 men now employed in the shop crafts. Without going into detail as to what these changes were, what they will accomplish, generally speaking, is a discontinuance of the onerous rules which piled up the labor bills for the roads without giving anything like the compensation which should have resulted.

It is estimated that these changes will result in a saving of between $40,000,000 and $50,000,000 in the coming year, and that further changes in other branches of railroad work will more than double this saving.

Conclusion

On the whole the outlook is very bright for the coming year. The roads have passed through the worst and now face what will undoubtedly be the best year they have had since 1917. In the coming year the writer believes sound dividend paying railroad securities will sell materially higher, and some of the non-dividend paying rails will enter the dividend paying class.

Railroad securities on the whole are not far from the bottom, and should be purchased and held for considerably higher prices.

A Criticism of the Oldham Plan

How It Differs from Former Proposals

Editor's Note:—An independent plan for railroad consolidation, prepared by Mr. John F. Oldham, and presented at the recent Investment Bankers Association Convention has aroused considerable interest and discussion. There follows a brief criticism of the salient features of this plan.

IN an article on Railroad Consolidations in the October 15th issue of THE MAGAZINE OF WALL STREET, Mr. Neumark pointed out that this plan, if properly carried out, instead of weakening the strong roads by linking them up with the weaker ones would strengthen them and, to an even greater degree, would strengthen the so-called "weak" roads. In this article the writer also laid special stress on the existing conditions which resulted in roads being constituted as "weak," chief among them being over-capitalization and the provisions in the Transportation Act of 1920, which would only permit consolidation on the basis of actual value of the property as determined by the I. C. C. These factors also formed the basis of Mr. Oldham's introductory remarks in his plan of Railroad Consolidation. It is extremely interesting to note Mr. Oldham's remarks on these important points and we therefore quote him in part:

Mr. Oldham's Views

"Much of the opposition," says Mr. Oldham, "to consolidations has been and will continue to be based on the theory that their purpose is to strengthen the 'weak' by weakening the 'strong' roads and that the credit of the 'strong' roads will thereby be impaired. If this result is to follow, it goes without saying that voluntary consolidations in a large way will never take place.

"This conception of the problem, however, proceeds largely on the assumption that the 'weak' roads generally are less favorably situated. It does not take into account the fact that approximately 25% of the country's traffic is handled by systems which are 'weak' only in their capitalization, but are similar to the 'strong' roads both in operating conditions and in favorableness of location, and, if similarly capitalized, would have similar financial strength.

"The contention that the credit of the so-called 'strong' roads will be impaired by merging with the 'weak' roads insofar as it applies to such systems as are here referred to, can be upheld only on the theory that the amount of existing capitalization rather than property value, is to be the controlling factor in determining the basis of consolidation, and that adjustment of capitalization to conform to property value is not to be made at the time or before consolidations take place. Such readjustments, however, are required by the provision of the Transportation Act which stipulates that 'the bonds at par of a corporation which is to become the owner of the consolidated properties, together with the outstanding capital stock at par of such corporation, shall not exceed the value of the consolidated properties as determined by the Commission.' Thus in the process of consolidation over-capitalization will be eliminated wherever it is found."

Referring in greater detail to the unsound financial structure of some of the carriers as the basis for the term "weak" to these roads, Mr. Oldham emphasizes some very important points. He says in part:

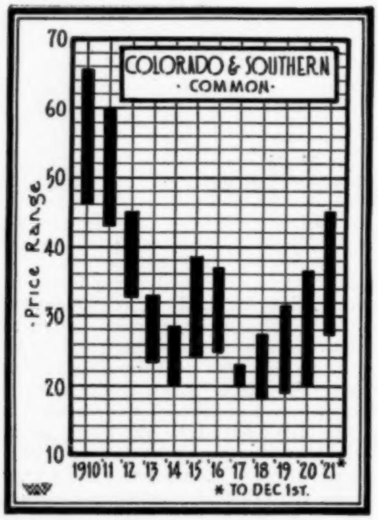
"* * * were both groups of roads (referring to the strong roads and the weak) capitalized on the basis of their gross earnings, there would be but little difference in the rate of return earned on the capitalization of either group—the average road in either

(Continued on page 290.)

Switching Into Income

How Holders of St. Paul and B. & O. Common, Non-Dividend Payers, Can Improve their Position—Colorado-Southern's Prospects

The Colorado & Southern Ry. Co. is a subsidiary of the Chicago, Burlington & Quincy R.R., the latter road owning about $23,657,000 of a total of $31,000,000 common stock outstanding, $1,130,000 of the $8,500,000 1st preferred and $6,078,700 of the $8,500,000 2nd preferred stock outstanding. The dividend policy of the parent company has been extremely conservative as far as the Colorado & Southern is concerned. The earnings of this company for the past six years have resulted in substantial balances over preferred dividends and in every year these earnings have been put back into the property. This policy has, of course, greatly strengthened the position of the road and enabled it to sustain dividends which were recently resumed just so much the more easily. The fact that this dividend resumption occurred at a time when the parent company was in need of as much cash as it could lay hands on to help the Northern Pacific and Great Northern roads meet the regular quarterly dividends undoubtedly indicates that this emergency had a great deal to do with the decision. **Regardless of what the reason for the declaration may have been, however, the purpose of this article is to show that Colorado & Southern has a better chance of continuing dividend payments on the common than either Chicago, Milwaukee & St. Paul or Baltimore & Ohio have of resuming dividends on their preferred and common stocks respectively, within the next year or so.**



Colorado & Southern's Earning Record

For the last ten years this road has earned sufficient, in all but two years, to show a large balance over preferred dividends. Earnings for this entire period averaged $4.30 a share per annum on the common stock. The only dividend paid on this class of stock during this period was in 1912, when a disbursement of 1% was made.

The earnings of the company have been particularly good in the last five years in spite of the tremendous increase in the cost of operation. For this period earnings have averaged about $6.35 a share on the common, and for the current year earnings are exceeding any previous year in the history of the company. The road will probably show a balance well over $9 a share for the year.

This substantial increase in earning power in recent years is due, to a large extent, to very efficient management, which is characteristic of all Hill managed roads, and to the fact that in the entire ten-year period, while gross earnings of the road were rapidly increasing, fixed charges remained practically unchanged.

The funded debt of the company is less to-day than it was ten years ago, a very unusual condition.

Dividend Resumption

On the first of this month Colorado & Southern, or, to be more exact, Chicago, Burlington & Quincy authorized a $3 dividend on the common stock. Thus after remaining nine years in the non-dividend paying class the stock is brought back into the ranks of the elite, so to speak. The stock has not been placed on any regular dividend paying basis, the directors merely voting to make this disbursement for the current year.

Whether or not Colorado & Southern will continue to pay dividends is almost impossible to say. As far as the earnings are concerned there is little doubt in the writer's mind as to the ability of the road to maintain an annual dividend of at least $3, but the question seems to rest entirely upon the desires of the parent company. In view of the fact that Burlington authorized a disbursement of close to $1,000,000 on the common stock of Colorado & Southern at a time when its own treasury had already been drained of almost $28,300,000 in excess of its usual annual dividend disbursements in order to permit its parent companies, the Great Northern and Northern Pacific, to maintain their regular 7% dividends on the preferred and common stocks would seem to indicate that the action of the directors was prompted by the belief that Colorado & Southern should be made to bear some of the burden. Whether or not the directors will decide to continue this disbursement when it no longer becomes necessary for the latter roads to lean on Burlington for support, is highly problematical.

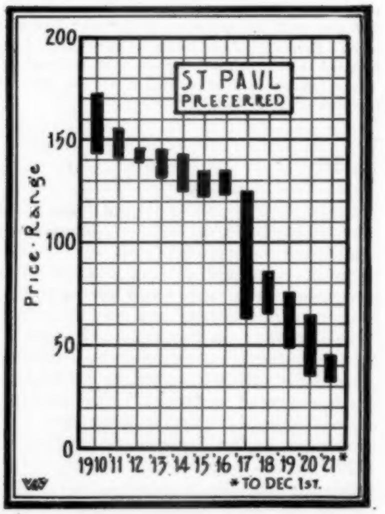
The important consideration for the present, however, seems to be that the road has fully demonstrated its right to be placed on a regular dividend paying basis. Colorado & Southern therefore has the distinct advantage over Chicago, Milwaukee & St. Paul and Baltimore & Ohio of being in a position to continue dividend payments on the common whereas the possibilities for dividend resumption on St. Paul preferred and B. & O. common seems to be decidedly remote.

Financial Position

Consolidating the balance sheets of the Colorado & Southern and its subsidiaries the Fort Worth & Denver City Ry. and the Wichita Valley Railway we find that the company had a working capital of $6,700,000, of which $3,900,000, or 58%, was in cash, and another $500,000 in interest and dividends receivable on December 31, 1920. Current liabilities consisted chiefly of audited accounts and wages payable and taxes. The Government has not yet made a final settlement with the road for the balance of compensation due from Federal operation. This settlement should be effected before long and will materially strengthen the road's financial position.

St. Paul's Plight

The writer has pointed out in previous issues of The Magazine of Wall Street the doubtful position of the St. Paul system and the extremely remote chances of that road's resuming dividends on the preferred stock, if at all with the present exceedingly heavy capitalization. St. Paul has suffered tremendously from the drastic decline in the volume of copper, grain and lumber carried, but the chief trouble is the road's inability to obtain a suffi-



ciently heavy volume of traffic per mile of road operated. This is due to conditions existing in the undeveloped Northwest. St. Paul is very heavily capitalized per mile of road and in order to operate at a profit the road must handle a large volume of traffic per mile of operation.

The chief drain in the St. Paul system seems to be on its lines west of the Montana-North Dakota state line. This extension to the system will eventually prove of material benefit to the road, but for the present and for some time to come it will undoubtedly prove unprofitable because of the sparseness of the territory through which the lines extend, and lack of feeders. These factors more than offset the advantages obtained by a direct line to the Pacific Coast.

Over-expansion seems to be exacting its toll now and St. Paul is having a difficult task. The road's annual fixed charges now run close to $20,000,000 per annum as compared with about $9,000,000 ten years ago, an increase of over 122%. In the last five years St. Paul's earnings have dropped to the vanishing point. In 1917 the road paid what proved to be its last dividends to date, on both common and preferred stocks, and in order to make these payments had to dip into surplus quite heavily. The Government Guarantee in the succeeding years proved to be a life-saver for the road, but since the termination of Federal Control it has been losing money. For the first seven months of this year St. Paul's operating deficit amounted to about $1,800,000.

In the last three months, to be sure, there has been a considerable improvement in earnings, due primarily to a heavier grain movement. Net earnings for the three months, August, September and October averaged about $2,000,000 per month. But even should this improvement continue for the balance of the year St. Paul would still fall short of covering its fixed charges by about $13,500,000.

On December 31, 1920, the road had current liabilities in excess of current assets to the extent of about $10,000,000. It seems certain that the road's financial position has not improved any from operations this year, in fact should be considerably worse at the present time as a result of the shortage between this year's earnings and expenditures for interest and rentals. President Byram states that the road will be able to meet its January interest charges. This would seem to indicate that St. Paul has been borrowing money again. Then there is the Government loan which matures on March 1, 1922, amounting to $25,000,000 and carrying interest at 6% per annum. It is doubtful whether St. Paul will be able to fund this loan at a satisfactory rate of interest at the present time and this means that the Government will have to carry the road for at least another year.

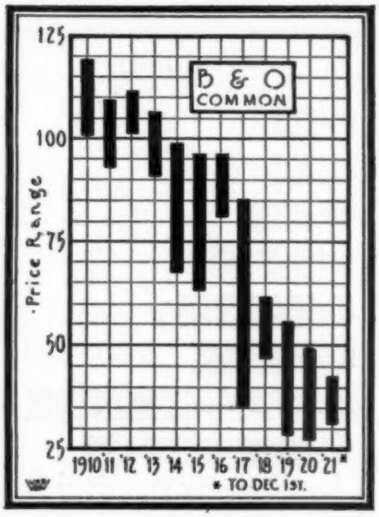
The possibilities for any dividend on the preferred stock in the coming year seems too remote to even justify consideration. No matter what the improvement in earnings in the coming year may be the road will have its hands full in straightening out its tangled financial affairs and restoring some vestige of the credit rating it once had.

In switching, therefore, from St. Paul preferred, selling around $33 a share and paying nothing, to Colorado & Southern common, selling around $42 a share and paying probably $3 per annum, the investor has everything to gain and nothing to lose. The present market stamps the difference in value of the two stocks at $9 per share but in the course of the coming year this difference will undoubtedly be decidedly more marked in favor of the Colorado & Southern stock.

The Outlook for Baltimore & Ohio Common

A switch from Baltimore & Ohio common into Colorado & Southern common is not nearly so desirable as a switch from St. Paul preferred to Colorado & Southern common. There is absolutely no parallel between Baltimore & Ohio and Chicago, Milwaukee & St. Paul at the present time, the former being in such infinitely better condition and having such brighter prospects than the latter. Nevertheless, Colorado & Southern appears to be a better speculation at present prices than Baltimore & Ohio.

The Baltimore & Ohio system has enjoyed a very rapid come-back from the drastic set-back it received during the period of Federal Control. The road had many problems to contend with that were not common to other carriers. Coal was one of the most valued and important commodities carried during 1918 and 1919 and the restrictions placed on this commodity by the Government handicapped the road considerably. The Government regulated the routing of coal and this resulted in a great deal of traffic normally moved over this road being diverted to competing roads. In addition to this, free movement of coal was restricted because shortages existed in certain quarters while others were more adequately supplied.



This diversion of traffic played havoc with the operations of the road. Efficient and economical management became almost an impossibility and this in conjunction with the rapid rise in operating costs brought B. & O's expense account out of all proportion to its income. Baltimore & Ohio has been slow in recovering from these set-backs and it has only been in the recent months that the road has begun to show a return of its old time earning power. Earnings for the last four months have averaged about $2,500,000 per month. July 1st to October 31st is normally the period of heaviest freight movement for B. & O., and on the basis of present fixed charges the road would have to earn at the rate of about $2,850,000 per month for these four months in order to earn sufficient to just cover the annual fixed charges and preferred dividend requirements, which amount to about $23,500,000. This calculation is based on the assumption that these four months account for 48.4% of the entire year's net operating income, which condition normally obtains.

In the period from July 1st to October 31st in the current year net operating income amounted to $11,000,000, or at the rate of about $2,750,000 per month. B. & O's earnings in this period therefore were at an annual rate just about sufficient to take care of preferred dividends. Earnings for the first ten months of this year were at an annual rate of about 33c a share on the common stock.

This is certainly a very satisfactory showing under the conditions that existed this year and augurs well for the future, but the important point to bear in mind is that Baltimore & Ohio's fixed obligations are considerably heavier to-day than they were in the pre-war period and the road has yet to demonstrate whether or not it will be able to cover these increased charges and have a large enough balance left over to resume dividends on the common stock.

Increase in Fixed Charges

There was a substantial increase in the funded debt of the company in the year 1916. Interest charges in that year increased about $3,000,000 and have been increasing steadily ever since. On June 30th, 1913 the total outstanding funded debt of the company amounted to $358,400,000 and to-day stands at $488,174,976, exclusive of $20,600,781 of guaranteed bonds. The annual interest charges in 1913 amounted to about $13,800,000; today they amount to about $19,500,000. This increase in annual interest charges amounts to about $3.75 a share on the common stock, or about 50% of the largest balance ever earned on this class of security. On the basis of the present fixed charges Baltimore & Ohio's earnings in 1916 and 1917, two years of railroad prosperity, would have been equivalent to about $5 and $3, respectively, per share of common stock.

The earnings of the company from 1917 to 1920 inclusive are of no value as a guide to what the road may normally be expected to do in the coming years. In other words, Baltimore & Ohio has yet to demonstrate what it will be able to earn on the common stock after allowing for its increased obligations. The results of operation for the current year indicate that when further economies are effected and the volume of traffic becomes more normal the road will undoubtedly be able to earn something on the common stock, but it is quite doubtful whether it could earn sufficient regularly to warrant a disbursement as large as that of Colorado & Southern's.

C. & S. for B. & O.

The desirability of a switch from Col-

(*Continued on page* 287.)

Industrials

Sears, Roebuck & Co.

A Giant Temporarily Crippled

Sears, Roebuck Set Back by Price Dropping—Slowly Working Its Way Out

THE mail-order business cannot yet be said to be out of the woods. Farmers are still economizing to the absolute limit; the farm community supplies the bulk of the mail order business; until the farmers recover their financial poise, mail order sales will continue comparatively small.

The country's great mail order houses have gone through a very trying period. They have had to contend with an unexpected decline in merchandise prices. They have had to do considerable financing, of various sorts. They have had to carry large inventories.

However, the dark side of the picture is not the only side to look at.

The mail order business is well established and essentially sound. Under normal conditions—and when the farming community is not prostrate—gross business done here is very large and profits correspondingly good.

From a security point of view, the conclusion seems to be that, pending more thorough readjustment, mail order stocks are not likely to move up in the near future; but that, over a period of years, they should work out of their present rut and be re-established as good investments.

Sears, Roebuck

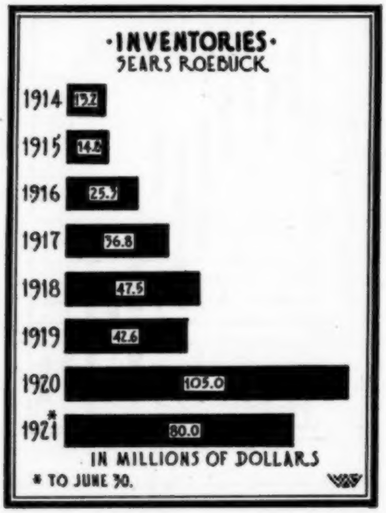
The outstanding fact about Sears-Roebuck finances is that the total funded and floating debt of the company has increased $100,000,000 roughly in the past two years. This increase is equivalent to 125% on the outstanding capitalization as it stood at the beginning of 1920. These figures tell the story of the setback the company received in the industrial battle of 1920-1921.

A vitally significant point is that while the total debt, funded and floating, including both classes of stock, is now about $193,000,000 against a total of these items of about $93,000,000 at the beginning of 1920, sales this year will probably not amount to as much as $200,000,000 against $254,000,000 in 1920. At the same time, owing to the drop in prices, the margin of profit has been cut deeply so that, regarded broadly, the company can hardly be said to be in as good a financial position as at the beginning of 1920.

The Underlying Reason

The underlying reason for this change in the company's financial position is to be found in the inventory account. At the end of 1920 inventories stood at $105,000,000, or by far the highest figure in the history of the company. The nearest to it was an inventory figure of $47,500,000 at the end of 1918.

Since last January the company has made some good progress with regard to liquidating its inventories. By the end of last June it had brought down this figure from $105,000,000 to $80,000,000. Despite the rather unfavorable conditions under which the company is now operating, it may be presumed that year-end figures will show inventories still further reduced. However, even with this improvement, the inventory account as carried forward into the new year will probably be considerably above the usual amount.



In a word, the Sears-Roebuck situation seems to be this: the company has tied up its capital and has borrowed from the banks in order to carry an unusually large amount of goods. Were there a possibility of an advancing market in retail merchandise next year, the company might, within a comparatively short time, emerge from its present hampered position. However, the facts do not support such a conclusion. It is doubtful that the average prices now being received by the company will be greatly exceeded next year; therefore the margin of profit is likely to be considerably under normal for some time yet.

GROSS SALES VS. INVENTORIES.
SEARS, ROEBUCK & CO.

	Per cent of inc. over 1914 Gross Sales	Inventories
1915	10%	12%
1916	44%	91%
1917	76%	178%
1918	96%	260%
1919	154%	222%
1920	151%	695%
1921*	100%	506%

*On basis of first six months.

Why Dividend Was Passed

In March, 1921, owing to the fall in prices and the decline in agricultural purchasing power, the company's earnings declined at such a rate that it was decided to omit the common dividend. Dividends had been paid regularly since 1909, and the action of the directors in omitting the regular disbursement indicated the position in which the company found itself. During the first six months of this year the company made the worst showing in its history and piled up a large deficit.

At the same time, it had to contend with a serial note issue, brought out in October, 1920. This issue amounted to $50,000,000, carrying a coupon rate of 7%. These notes are in three series, the first of $16,500,000 having fallen due October 1, 1921, the second of the same amount due October 1, 1922, and the third of $17,000,000 due October 5, 1923. It is the writer's understanding that through short-term borrowing, the company was able to meet the first instalment on these notes, leaving $33,500,000 still due. However, it is noted that the first instalment, at least the major part of it, was not paid out of earnings but through bank borrowings. In other words, although the company changed the character of its debt it did not abolish it.

In this writer's view, at least, the company's outstanding notes and bank loans constitute the chief obstacle it will have to overcome. Certainly the liquidation of these obligations will be no simple matter so long as present business conditions continue. Payment of these notes involves further liquidation of inventories and while the company is making progress in this respect, the rate is too slow to permit complete liquidation at least for some time.

Offsetting Features

It should not be assumed from the foregoing that the management is sitting idly by waiting for prosperity to come. Whatever can be done is being done, especially along the lines of economical operation. The number of employes has been reduced very materially without sacrifice of efficient operation, and it is understood that the company

(*Continued on page* 293.)

Montgomery Ward & Co.

Sears, Roebuck's Nearest Competitor

Montgomery Ward's Outlook Clouded by Same Factors as Affect Bigger Concern — Stock Attractive Only for Long Pull

LIKE Sears, Roebuck, its nearest competitor, Montgomery Ward & Co. has had to face a long and arduous period of adjustment to the new economic conditions. Last year, the company sustained a loss from operations of $7,855,278, and of this amount loss from inventory shrinkage was $5,174,434.

During this period and thus far this year, mail order competition has been intense. Prices have been cut drastically and in some instances with little regard for the loss entailed. Thus, Montgomery Ward announced reductions last Spring of as high as 50% and more in wearing apparel and textiles. Generally the policy of this company has been to liquidate, to bring down the inventory figure to something approximating normal. Like Sears, Roebuck, this company suffers from a too-high inventory in order to support which it had to go out after money.

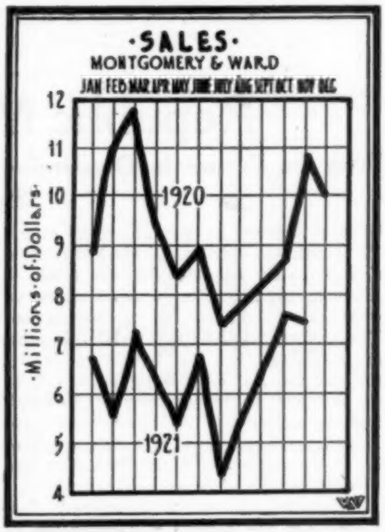
A Huge Business

Montgomery Ward has built up a huge business. But the conditions under which it was possible to build up this business have greatly changed. Conditions today are more nearly like those of pre-war times and while, broadly speaking, the volume of sales during the past few years has been advancing, the margin of profit has declined, as evidenced by last year's results and the probable results for this year. Under the circumstances, with prices unsettled and with the rural population holding tightly to its purse-strings, the company's margin of profit seems likely to be small for a very considerable period.

In this connection, it is well worth while to examine the company's financial structure. There are some favorable points and others not so favorable. For example, the company has no funded debt, except for the comparatively small issue of $900,000 6% bonds of its warehouse subsidiary, the Montgomery Ward Warehouse Corp. Its preferred stock issue is also comparatively small, amounting to $8,000,000 outstanding, out of a total authorized issue of $10,000,000. This issue pays 7% and consequently only $560,000 dividends annually are required, which under normal conditions can easily be met by the company.

Several weeks ago, however, the company was compelled to suspend dividends on this issue. Under present unfavorable conditions in the mail-order business this dividend could not be met, which resulted in the drastic action of the directors. Restoration of disbursements on this issue, of course, depends on resumption of normal conditions in the industry. It is entirely unlikely that the results for the next few months will be sufficient to permit the restoration of dividends. However, conditions should eventually improve and considering the relatively small amount required for dividends on this issue, it should ultimately find its way back to the income-producing class.

Following the preferred stock, there is an issue of 205,000 shares of class "A" stock, which is cumulative up to $7 a share. This issue no longer pays dividends, the dividend having been passed January, 1921. It will be noticed, however, that were the full rate of payment maintained on both classes of stock—preferred and class "A"—the annual requirements would amount to about $2,000,000.



To continue further. Following the class "A" stock there is an issue of 95,000 shares of class "B" stock. This class "B" stock is to get three times as much dividends as any dividend declared on the common stock, of which there are 856,251 shares outstanding, so that in effect the 95,000 shares of class "B" stock are equivalent to 285,000 shares of common stock, which would make the total outstanding amount of common stock equivalent to 1,141,251 shares. The class "B" stock is exchangeable into common stock on the basis of 3 shares of common for 1 share of class "B" stock.

Earnings for Dividends

The point of all this discussion is that if dividend of only $1 a share were to be paid on the common stock, it would involve payment of $1,141,251 annually. Adding this amount to the $2,000,000 required for the preferred and class "A" stock, the company would have to earn annually at least $3,141,251.

Examination of the earnings record will show whether the company may be expected to turn in such earnings under normal conditions. In the period 1916-1919, inclusive, it averaged earnings of $4,250,000 approximately, which would have covered the $1 dividend requirement on the common stock by a comfortable margin. However, in the period 1913-1915, inclusive, it earned on the average only $2,000,000 annually or only enough to pay dividends on the preferred and class "A" stock. Inasmuch as present conditions and those likely to materialize in the next year or two are more nearly comparable to those of the 1913-1915 period than to the 1916-1919 period, it will be seen that the probabilities of the company being able to earn sufficient to pay dividend on its senior capital obligations as well as on the common stock at the assumed rate of $1 a share are not very strong.

Frankly, it is the opinion of the writer that the company is over-capitalized in relation to the probable business and profits during the next year or two. In a word, it is necessary for the company to grow up to its large capitalization.

In one respect Montgomery Ward appears to be in a better position than Sears, Roebuck, and that is in respect to the character of its financial structure. Whereas Sears, Roebuck has a large amount in funded debt—even though of short-term—Montgomery Ward has practically none. And, again, whereas the larger company is struggling under the handicap of very large bank loans, Montgomery Ward has a comparatively small figure, although this too is the largest in the history of the company. Still, it seems that Montgomery Ward is closer to reaching a liquid position than the leading interest in the field.

On the other hand, the amount of common stock outstanding is large. Under present conditions, no earning power can be expected for this issue and it seems very much of a question whether an earning power sufficient to warrant dividend payments can materialize for a long period. The present price of the stock around 14 seems to reflect this prospect.

Under the circumstances there is nothing immediately attractive about this issue, although as a long-distance speculative investment it may turn out well.

National Cloak & Suit Co.

The Third Largest Mail Order House

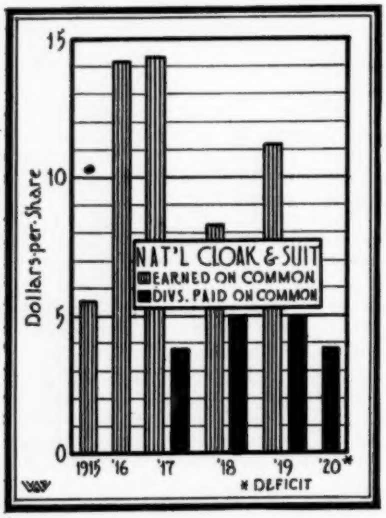
In Position to Advantage from Low-Priced Goods—Comparatively Good Outlook

THE National Cloak & Suit Company is the third largest mail order house in the country, but its business is in a more limited field than that of either Sears, Roebuck or Montgomery Ward. The latter two deal in general merchandise but National Cloak & Suit as the name implies deals principally in wearing apparel. It also retails graphophones and records manufactured by the Columbia Graphophone Company.

Operated at Loss Last Year

National Cloak & Suit offered no exception to the general run of mail-order houses and last year for the first time in its thirty years of history operated at a loss. After paying out dividends on both preferred and common stocks last year the company showed a loss of nearly $2,000,000.

Owing to the unsettled conditions under which the company operated last year the dividend on the common stock was passed October, 1920. For the first half of the year, the obstacles confronting the company were formidable though no more so than those which confronted other concerns in the same field and it is hardly likely that a profit was shown. There has been some improvement during the latter half of the year, but considering the fall in prices, it is likely, after inventories are written off, that a loss will be shown for the full year.



Earnings

The company has generally shown a very fair earning power and in the five-year period 1915-1919 returned an average of over 10% on the common stock. In 1920, however, as stated above there was a deficit after dividends of nearly $2,000,000 and this year the company will probably show another deficit.

In one respect the company makes a favorable comparison with either Sears, Roebuck or Montgomery Ward and that is with regard to its inventories. In the fall of 1920 this item stood at $12,000,000 but by the end of the first half of 1921 had been reduced by approximately 50%. Since then further progress has been made and the company is now in a position to take advantage of the low-priced goods which are now obtainable.

Last year the company opened its new Kansas City plant and it is believed that operations from this plant will result in materially increasing the company's business and profits. In order to increase working capital necessitated by the opening of this large plant, the company ordered the issue of $5,000,000 10-year 8% notes.

The addition of these notes to the capitalization of the company, while rendered necessary by surrounding conditions, is, of course, a disadvantage so far as common shareholders are concerned. On the average, including interest and sinking fund requirements this issue of notes will consume about $500,000 annually of the company's earnings or an equivalent of about $4 a share on the 120,000 shares of outstanding common stock. This factor, in addition to the outlook for probably a year or two of relatively poor business, should contrive to postpone the restoration of the common stock to a dividend paying basis.

Conclusion

The common stock is selling at about 27 representing a decline of over 50 points from the highest price of 1920. Considering the poor outlook for dividends, this issue is not particularly attractive except as a very long-range speculative investment. The preferred stock which is quoted at about 70 pays $7 a share and yields 10%. As indicated by this high yield, the dividend does not appear secure. However, there is only a relatively small amount required annually for payment on the 41,800 shares of outstanding stock and except in the event of unduly prolonged depression, it is possible that dividends will be continued.

Republic Motor Truck

Why Its Future Is Obscure—Investment Aspects of Common Stock

THE finances of the Republic Motor Truck Co. are so involved that it is difficult to see why the common stock of this company should be regarded attractive either as an investment or speculation. The company's $2,500,000 serial 7% notes are in default, the first installment which fell due Nov. 1, 1921, being in default as to principal to the amount of $500,000, and the second and third installment due Nov. 1, 1922 and Nov. 1, 1923 respectively, to the amount of $1,000,000 apiece, are in default as to interest.

Arrangements were completed last month for the deposit and extension of these notes, including the preferred and common stocks of the company. The interest rate on the defaulted bonds was raised to 8% in lieu of the 7% coupon rate previously prevailing and the company together with the responsible banking interests are exerting every means to bring financial affairs of the company to a more satisfactory state.

Future of Common Stock

Considering the natural unsettlement which is caused by the new financing measures, the outlook for the common stock is rather obscure. This stock has declined this year from a price of about 24 to around the current level of 6. The downward movement, of course, was occasioned by the unfavorable developments with regard to the company's finances.

The outlook for the company is dependent on a revival of the motor truck industry. The company makes a good product and its new model should provide a considerable amount of business. However, present conditions are unfavorable and the outlook is none too certain. In the meantime, it is difficult to say what further action may have to be taken.

Without desiring to take too pessimistic a viewpoint, nevertheless it is apparent that a company in the position of Republic Motor Truck might be compelled, through circumstances, to go through financial realignment to the detriment of the junior shareholders. For this reason, to invest in this stock under present conditions would appear to be a rather unwise step, especially in view of the fact that there are other issues at the same or lower price which have a clearer outlook.

Republic Motor Truck preferred is a very small issue, there being only $836,200 outstanding. The balance sheet as of December 30th, 1920, showed current assets of $5,600,000 against current liabilities of $1,900,000. Funded debt of the company is $2,591,162. As stated above, the company defaulted on November 1st the interest on its bonds and notes. The formulated plan contemplates a 5-year extension of the $2,500,000 7% notes outstanding of which $500,000 were due November 1st; the company to increase interest rates to 8% and to redeem annually $300,000 notes beginning November 1st, 1923. Bank creditors it is understood have consented to the use of sufficient cash to permit payment of November 1st coupons of noteholders consenting to the extension. Time for deposit of securities under the plan is announced to expire Dec. 31. If the plan works out, as expected, the preferred shareholders may fare comparatively well.

White Motor Co.

One of the Strongest Motor Concerns

Company Had an Excellent Record During 1921

THE White Motor Company has the unusual distinction this year among manufacturers of commercial vehicles of having been able to make a very handsome showing. Unlike several other companies in this field which have suffered greatly under the generally adverse business conditions and which are still struggling under a heavy financial load, White Motors has been able to score considerable progress, has attained a highly liquid position and has even managed to go on paying the regular dividends on its capital stock.

A Sagacious Management

The White management is remarkable for its sagacity. Even in one who has been accustomed to analyze financial statements of industrial companies and their business policies for many years, the methods of this compact concern arouse great admiration.

There are two principal reasons for the continued success of White Motors during the recent trying and difficult period. One is the quality of its product which is very highly regarded by the trade, and the other is the fact that, during the war, the company refused to take advantage of the generally inflated price structure and only moderately increased the price of its trucks over the 1914 level. The net result of this intelligent and far-sighted policy has been to throw a great amount of business to the company which would otherwise have gone to other manufacturers.

Satisfactory 1921 Operations

Last Spring, White made an average reduction of 10% in the price of its trucks so that prices are now almost down to the 1914 level. On this basis, sales have been stimulated and in October, orders flowed in at a rate in excess of any previous month this year. Since July the tendency of sales has been upward. Thus, August sales were 10% better than those in July. September sales were 8% in excess of August, and, as stated, October sales were the largest in the year. **Conditions currently are satisfactory, and the outlook is that the company will enter 1922 with a large amount of unfilled orders.**

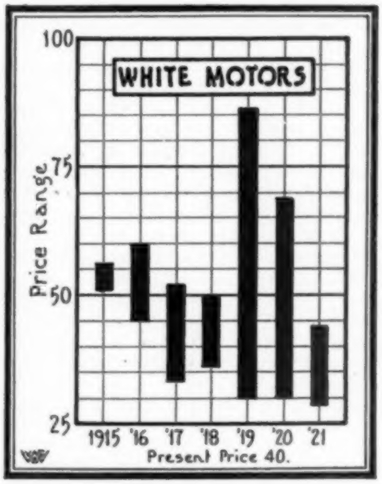
From a financial viewpoint, also the company has made considerable progress. Bank loans and notes payable have been reduced from last April's figure of $8,750,000 to $4,600,000. At the same time about $2,400,000 cash has been amassed, which assures the liquid position of the company's finances. Inventories may be said to still be a little too large, but a considerable portion thereof represents "finished product" and so with sales outrunning production, the probabilities are that the inventory item will undergo a material reduction within the next few months.

In any case, the financial position of the company is sound.

Earnings Ample for Dividends

Judging from the attached table, earnings of the White Motor Co. have shown a tendency to decline. However, it should be noticed that the amount of outstanding capital stock has increased. Hence, the decline in earnings is more apparent than real.

In 1916 when earnings amounted to $13.66 a share there were only 320,000 shares of capital stock (fifty dollars par value) outstanding. In 1920, however, when earnings had dropped to $4.82 a share, the amount of capital shares outstanding had increased to 500,000. On the basis of the old capitalization White Motors would have earned about $8 a share last year.



White pays dividends of $4.00 a share on its common stock and since there is no funded debt or preferred stock, this dividend, on the basis of current earnings, appears secure. It seems safe to assume, at any rate, that the directors, who are a notedly conservative body, would not have continued the dividend unless in their opinion conditions warranted such action.

WHITE MOTORS EARNINGS.

	Shares outstdg.	Amount earned per share	Dividends paid
1916 ...	320,000	$13.66	$3.62½
1917 ...	320,000	11.88	4.00
1918 ...	320,000	8.38	4.00
1919 ...	400,000	11.47	4.00
1920 ...	500,000	4.82	4.00
1921 ...	500,000	*	4.00

*No report available.

Progressive Operating and Plant Methods

One of the features in connection with the business policy of the White Motors Co. is its admirable treatment of its employees. The company has not only installed such conveniences for them as a library, gymnasium, lunch room and stores where goods are offered at low prices, but wages have been kept at the highest possible levels. The result of this policy has been to greatly increase the productive capacity per man. Since 1914, the company's labor efficiency has increased over 150%. It has been this achievement, coupled with the great skill and efficiency of the management and sales force, that made it possible to keep prices comparatively low and volume of sales comparatively high.

Another feature which has facilitated economical operation has been the disposal of expensive show-rooms. The company is now using only strictly utilitarian buildings at strategic points.

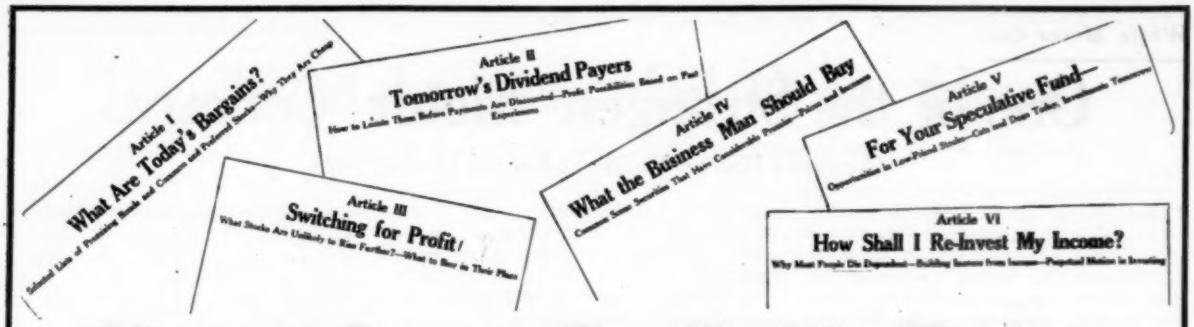
While the motor truck industry, as a whole, has been subject to a very drastic period of adjustment in 1921, it is not unconservative to predict that conditions will improve at least moderately during next year. The motor-truck has demonstrated its commercial efficiency and it may be assumed that with the improvement in general business conditions which is already on the way, this industry will be favorably effected. White Motors, which is one of the most important companies in the business, will no doubt get a good share of this additional trade.

Stock Attractive

The stock is quoted at around 40 with a yield of 10% based on the annual $4 dividends. Neither the outlook for the company nor its present financial position warrants such a low price. Last year, White Motors sold as high as 69 and this year declined to a record low price of 29. At its price of 40, only a moderate recovery from the low price has been effected.

The company's simple financial structure, with no bonds or preferred stock outstanding and with the only capital obligation in the form of the 500,000 outstanding shares of capital stock is an excellent feature. **Everything about the company, including the popularity of its product, the skill of its management and working force, its strong financial position and the outlook for its business leads to a wholly favorable conclusion.**

The stock has paid dividends regularly for the past six years and the probabilities are that this record will be continued. Compared with many other securities at the same price or higher, this issue is decidedly attractive and deserves confidence.



How to Invest Profitably Today

A Series of Six Articles

What Are Today's Bargains?

Selected Lists of Promising Bonds and Common and Preferred Stocks—Why They Are "Cheap"

THE securities recommended herein have been carefully selected with particular reference to market possibilties during next year. While the list is a fairly long one it is by no means inclusive of all the more attractive securities listed on the New York Stock Exchange; still it is fairly representative and as such is worth the scrutiny of forward-looking investors.

The list includes a number of issues which ordinarily come under the heading of speculative securities and are recommended mainly from that viewpoint. Where investors are not in position to take speculative action it is advisable that they confine their selections to securities of greater investment value, particularly among the bonds and preferred stocks mentioned in this article.

Recommendations Not All in One Class

The securities recommended are not recommended for precisely the same reasons in each case. The bond group has been chosen for one set of reasons, the preferred stock group for somewhat different reasons and the speculative group for an entirely different set of reasons. It is, however, obvious that the basic principles of investment are the same for all classes of securities—namely, the purchase of genuine value at a price to insure a reasonable return, either through the annual return on the invested money or through future materialization of profits. But the specific reasons for investment in the various groups of securities vary and in some instances vary widely.

One does not buy a bond, for example, for the same reason that one buys a speculative stock. While the desire to make a profit is present in each case in varying intensity, depending on the nature of the issue, the fact is that the investor buys bonds because he feels that his principal and interest are reasonably safe. Only the unsophisticated investor would expect the same feature of the truly speculative stock.

Why Bonds Sell High

It is because the element of risk is largely non-existent with good bonds, that the latter sell at comparatively high prices and offer camparatively low returns on the invested money. In the same degree, speculative issues, because the risk involved is so much greater, sell in lower prices proportionately, and offer higher returns on the invested money.

Roughly speaking, high-grade bonds yield 1% more than equally good preferred stocks and the latter yield anywhere from 1 to 5% more than speculative issues, varying from the solid type of investment, like U. S. Steel common or American Car Foundry common, to the more purely speculative issues like Studebaker, Kelly-Springfield and others of the same type.

Therefore, what makes one group of securities attractive is not exactly the same that makes another group of securities attractive. Generally speaking, the bonds listed in the bond table are attractive because they have not sufficiently discounted the improvement in money conditions and are "out of line" with other securities of the same type which have already advanced to a point to sufficiently discount the year's events in the money market. In each case, principal and interest are reasonably secure and while there are several bonds like the American Cotton Oil 5s and Virginia-Carolina Chemical 7½s which are slightly more speculative owing to surrounding conditions in the respective industries, **investment could be made in any or all of these issues with a likelihood of an eventual profit of some proportions.**

Preferred and Common Stock Groups

The preferred stock group has been chosen partly because its members will advance under the same impetus which caused the advance in bonds—namely, lower money rates; partly because the outlook for the respective companies is improving; partly because the financial position of each company is beyond reproach; and partly because these securities are still selling at nearly the lowest prices in their history with corresponding profit possibilities.

In choosing the speculative list, the writer has not been influenced so much by the high yields obtainable as by the fact that in each case but one (Manhattan Elevated) earnings are actually and prospectively at a rate to either justify the present rate of dividends where paid, or, as in the case of Butterick or California Petroleum, to justify the establishment of dividends on a comparatively generous scale. Securities listed under this group have not sufficiently discounted the prospective improvement in the position of the respective companies and, correspondingly, their future earning power. Each one is the issue of a well-established company in good financial shape, the only exception being Manhattan Elevated to which special allusion will be made later.

BONDS

HIGH-GRADE	Price	Yield %
N. Y., Chic. & St. Louis Deb. 4s, 1931	83	6.30
Diamond Match Deb. 7½s, 1935	107	6.70
Int. Merc. Marine 6s, 1941	91	6.75
Phila. Co. 6s, 1944	90	6.85
B. & O. S. W. Div. 1st 3½s, 1925	87	7.10
MORE SPECULATIVE		
Am. Cotton Oil 5s, 1931	84	7.25
St. Louis-Southwestern Consol. Mtge. 4s, 1932	73	7.65
Va.-Carolina Chem. 7½s, 1932	96	7.95

In the above table on bonds will be found a list of eight excellent issues yielding from 6.30% to 7.95%. Of these bonds, the American Cotton Oil 5s, St. Louis Southwestern cons. mtge 4s and Virginia-Carolina Chem. 7½s may be termed slightly speculative and for this reason the higher yield on these issues as compared with the rest of the group listed is warranted.

The other five bonds which include the N. Y., Chic. & St. Louis debenture 4s, Diamond Match debenture 7½s, Int. Mercantile Marine 6s, Phila. Co. 6s and B. & O. S. W. Div. 1st 3½s are all high-grade and are selling at prices which seem a little too low even under present conditions. Eventually this group will move forward and probably reach a 5½-6% yield average as compared with the average of 7% now obtainable in these eight issues.

From the investment viewpoint there need be no fear with regard to any of the issues enumerated. They are all issues of strong companies of many years' reputation with a demonstrated

earning power, greatly in excess of interest requirements.

The preferred stock group listed in the table below without exception offers a long-range opportunity for comparatively large profits. While these issues, of course, do not belong with the group of such seasoned preferred stocks as U. S. Steel, American Locomotive, American Car & Foundry and others of similar standing, they are sufficiently sound to warrant investment, especially on the basis of present prices.

Perhaps the most attractive stock in this group is Philadelphia Company 6% preferred at a price of 37 to yield 8.10%.

PREFERRED STOCKS

	Price	Yield %
Chic., R. I. & Pac. 7%	88	7.95
Phila. Co. 6%*	37	8.10
Int. Paper stamp. 6%	73	8.20
Am. Ice 6%	72	8.30
Gen. Motors 7%	84	8.50
Cal. Petroleum 7%	84	8.50
Worthington "A" 7%	84	8.50
Mexican Petroleum 8%	87	9.20
Int. Motor Truck 7%	73	9.65

*$50 par value.

This issue has a long record behind it of earnings very greatly in excess of dividend requirements and the nature of the business of this company, which is a public utility, suggests that earnings will be sufficiently stable to provide for regular dividends on its stock.

Among the other issues, General Motors 7% debentures, California Petroleum and American Ice are in an extremely sound position. These issues yield on the average about 8½% which is a very attractive return considering the excellent financial strength and earning power of the respective companies as related to these issues. The Mexican Petroleum and International Motor Truck preferred stocks are slightly more speculative but both companies are in a sound financial position and earnings at all times should be sufficient to cover the dividend requirements.

In a period of falling money rates, the tendency for all fixed-income bearing securities, such as bonds and preferred stocks, is upward. Broadly, the advance in these securities has already commenced and has been carried a considerable distance. **However, they have, by no means discounted the generally improving conditions and should sell eventually at a price to return a handsome profit. Not one of the preferred stocks mentioned here is in a truly speculative position and while several of them might be termed "business men's" investments, they should be equally attractive to even more conservative investors.**

As stated previously, the strongest feature attached to the common stocks described herewith is that even under present conditions, with the exception of Manhattan Elevated, earnings are at a satisfactory rate and in several instances, such as Butterick and California Petroleum, at a very high rate.

Manhattan Elevated at the current price is recommended only as a sheer speculation. There is no desire here to minimize the importance of the investigation now being conducted with regard to the New York City traction lines, but considering the high asset value of this stock and its former high earning power and considering also its unusual contract with the Interborough system guaranteeing payment at the rate of $7 a share on this issue which could not be abrogated without compelling a receivership for the system, it does seem as if all the circumstances surrounding the company are not unfavorable. Therefore, for those who are in a position to speculate and who are in a position to take a loss, should a loss result from a commitment in the stock, Manhattan Elevated offers interesting possibilities. The stock for many years sold considerably above par. The dividend rate of 7% is still intact and yet the stock sells at around 32. It is a decidedly attractive speculation.

None of the other issues are in so speculative a position. The Butterick and California Petroleum stocks are attractive as they are likely candidates for dividends. The dividends on the others appear reasonably secure.

Most of the issues listed in this last group have sold at very much higher prices. Despite their large decline they are still paying dividends at the old rate and this should offer food for thought to those who are looking for cheap securities. While conditions may, of course, alter the prospects for any of these securities—which is applicable to any common stock—nevertheless present indications are in favor of these securities and therefore, from a speculative viewpoint, they are in a good position. Were the investor to distribute his investments over all of these securities, the probabilities are that after a reasonable period he would have a fair profit at least on his aggregate holdings. This applies, of course, to the bond and preferred stock groups as well.

SPECULATIVE COMMON STOCK

	Price	Dividend	Appx. Yield
Butterick*	33	....	....
Cal. Petroleum*	46	....	....
White Motors	40	$4	10%
Kelly-Springfield	42	8%†	10%‡
Coca Cola	40	$4	10%
Tobacco Products	62	6%§	10%
Martin Parry	18	$2	11%
Union Bag & Paper	73	$8	11%
Manhattan Elev.	32	$7	20%

*Earnings justify dividend payments.
†8% quarterly in stock.
‡Yield depends on market price of stock, if dividend is sold.
§In scrip.

(The second article of this series, "Tomorrow's Dividend Payers" will appear in the January 7th issue.—Editor).

That Steel Merger

Now Definitely Under Way—Features of Present Plans—What Security Holders May Expect

By JOHN PLUNKETT

So often in the past five years have rumors of a proposed amalgamation of steel "independents" been advanced to explain market movements in stocks of these companies that the investing public has become inclined to disregard all merger reports as cries of "wolf." It is decidedly sceptical regarding the consolidation now being negotiated.

Nevertheless, such a merger is definitely underway, and the odds are all in favor of its being consummated. Only one great obstacle stands in the road—the difficulty of reconciling conflicting opinions of the interests concerned regarding the values of their properties.

Consolidation Would Solve Difficulties

Under ordinary circumstances this barrier would be a formidable one, for the controlling interests of the several companies, looking back to the huge war time earnings, are somewhat prone to place a high value on their properties and the securities which represent them. But there is an old proverb that says: *"Needs must when the devil drives,"* and the devil, in the shape of high freight rates, restricting markets and increasing manufacturing costs, and cutting competition is assuredly driving the steel producers to resort to the only economic solution of their difficulties—consolidation.

The United States Steel Corporation, the greatest of all industrial amalgamations, has proved in the past nine months the advantages of consolidation. John A. Topping, president of the Republic Iron & Steel Co., recently testified before the Interstate Commerce Commission that independent steel producers were losing from $10 to $15 on every ton of steel produced under existing conditions. The corporation's reports for the nine months to September 30 have demonstrated that the giant concern can and does make money under the same conditions.

Advantages of Consolidation

The independents, looking at the Steel Corporation, see it enjoying the following advantages:

Ownership of railroads bringing to its mills a large proportion of its raw materials. As railroad freights on raw material swallow about 50% of the total price received for steel this alone is an enormous advantage in competition.

Plants located at practically every strategic market point, enabling the corporation to reach any market, including the export field, at a small freight rate—another important advantage.

Great diversification of product, permitting it to make profits from activity

in any one line of material even while the trade generally is depressed.

Financial strength to cultivate and develop foreign fields on a broad scale.

These main advantages—there are others—explain the corporation's ability to show black ink figures on its income reports while its competitors are "in the red" and tell why the independent steel makers regard a combination, giving them some of these advantages, as inevitable.

A steel merger then, if it hopes to compete with the Steel Corporation on an even basis, must achieve these four objects, in the following order: plant location at principal market centers; diversification of product; financial strength and finally ownership of railroads. The last, however, is not of paramount importance.

It is hardly necessary to add that processes must be completely integrated. Many large steel independents are already so.

The Situation Today

Having thus outlined the reasons for a steel merger and the objects to be sought in planning it, let us come to the situation today.

There are, in fact, several steel mergers either being negotiated or still in the nebulous stage. It would not be surprising if the next twelve months witnessed three or four. But two are definitely afoot, one involving three, or possibly four companies, and the other comprising seven, including some of the biggest. As the larger merger, if carried through, will include the smaller the latter need not be discussed in detail now.

Seven companies included in the larger merger plan are, in order of ingot capacity:

Midvale Steel & Ordnance, 2,871,000 tons annually.

Lackawanna, 1,840,000 tons.

Youngstown Sheet & Tube, 1,500,000 tons.

Republic Iron & Steel, 1,395,000 tons.

Inland, 1,000,000 tons.

Steel & Tube Co. of America, 800,000 tons.

Brier Hill, 600,000 tons.

Total, 10,006,000 tons.

This compares with the Steel Corporation's capacity of 22,700,000 tons of ingots and with Bethlehem's 3,133,100 tons. The seven companies have a combined present capitalization of $126,475,809 bonds, $57,474,400 preferred stock and 5,181,085 shares of common stock.

Consolidation of these seven companies would doubtless bring about several economies in manufacturing but would fall considerably short of the ideal merger as outlined in the foregoing. As regards location of plants three of the companies, Republic, Youngstown Sheet & Tube and Brier Hill are concentrated at one point, Youngstown, O.; two are at Chicago—Steel & Tube Co. of America and Inland; Lackawanna is at Buffalo. Midvale, with its principal plants at Johnstown and Coatesville, Pa., is the only one of the group that would easily reach eastern markets. Seaboard and Southern steel plants would be entirely lacking. Broadly, this merger would be principally a Middle-Western consolidation.

On the second count, diversification of product, the suggested consolidation would also fall short. Not a single tin plate plant is included in the group. And tin plate is not only among the highest priced and most profitable of steel products but it is one for which the demand is most constant.

Only two of the seven companies, Midvale and Youngstown Sheet & Tube, make wire, another important product. On other lines, however, production is fairly comprehensive and consolidation would be particularly well fixed in respect to pipe and tube works.

Financial Strength

In respect of financial strength, while the merger outlined would doubtless be organized with a sufficiency of liquid working capital it is unlikely that it would be able, at its inception, to inaugurate an aggressive campaign for foreign business. But this might come in time as the new company built itself up, as might ownership of "feeding" railroads.

The probability is that bankers for the group would arrange for the addition of a considerable sum to present cash resources of the combined companies. The latest reports of the seven companies show an aggregate working capital of over $200,000,000 at the close of 1920 as follows:

Midvale, $86,842,321.

Lackawanna, $22,698,430.

Republic, $25,593,877.

Youngstown Sheet & Tube, not given.

Inland, $16,292,686.

Sheet & Tube Co. of America, $23,184,316.

Brier Hill, $10,043,572.

It is quite "on the cards" that the moving spirits in the amalgamation plan expect to greatly increase product diversification after rather than before consolidation. Several small concerns making tin plate, wire, etc., could, one imagine, be absorbed by an existing large company on more advantageous terms than they would demand if asked to co-operate in a consolidation. The great thing is to get as many of the big influential producers together; the rest will naturally follow more easily.

There has, for instance, been some talk of the possibility of Wickwire Spencer Steel, one of the country's largest and oldest established wire producers, with furnaces at Buffalo and wire plants making highly finished products at and around Worcester, Mass., being brought in either now or later. In the same way Trumbull Steel, with tin plate plants at Youngstown, is also suggested.

No Mystery About Negotiations

Probably no other large industrial merger negotiations have ever been conducted more in the light of day than the ones we are now discussing, although some writers refer to the proposed consolidation as shrouded in mystery. The public knows almost as much about the progress of the negotiations as the men chiefly concerned.

As I stated already, a consolidation is practically a necessity to enable a number of the independent steel companies to compete for steel business on anything like an even basis with the Steel Corporation. But the merger plan of the seven or more companies outlined is only in a tentative stage at present. Complete unprejudiced appraisals of the various properties involved are still being awaited. Prices at which the companies would be brought in to a new company have not been suggested and will not be until the appraisals are at hand.

Obviously, plenty of room for disagreement still exists. I am inclined to believe that the men at the council table will be willing, in view of the urgency of the situation, to yield to some extent on their estimates of value, particularly in view of the low prices for steel independent stocks on the market at present. It should be unnecessary to point out that a stockholder who considers his securities worth $100 a share would be more willing to accept $75 if the market price was $50 than if it were $125, or even $80.

Not the Final Attempt

But if the present negotiations should fail it would not mean the abandonment of steel consolidation plans. It would simply throw the whole matter open again. Other steel men, not concerned in these pending plans, have their own ideas for grouping of steel plants and are doubtless waiting to see how the cat

(Continued on page 298.)

The Lackawanna Steel Company's Plant at Buffalo, N. Y.

Coca Cola Company

A Remarkably Quick Recovery

Coca Cola One of the Few to Resume Common Dividends This Year

THE inherent earning power of the Coca Cola Company has been amply demonstrated during the current year. At a time when many industrial concerns were considering themselves fortunate if they were able to make both ends meet and when scores of companies were compelled not only to omit dividends on their common stocks but on their preferred stocks as well, the Coca Cola Company has not only turned the corner of depression quickly but piled up sufficiently large earnings to permit of the restoration of dividends on the common stock. This performance, during a period of general business hardship, stamps the company as an unusually capable enterprise.

The Coca Cola Company, of course, manufactures the product known by that name, which, by the way, is probably the most famous soft drink in America. Starting as a product to appeal primarily to the Southern palate, it has become popular in every section of the country. That it might better take care of the distribution of its product, the company has set up manufacturing plants in numerous parts of the country. There are now plants at Chicago, Baltimore, Kansas City, Los Angeles, Dallas and Philadelphia and elsewhere. The main plant is at Atlanta, Georgia.

Sugar Prices Affect Earnings

The chief raw material which enters into the production of Coca Cola is sugar. Obviously the price of this commodity has a governing effect on the company's expenditures; earnings, to a very large extent, therefore, are dependent on it. At a time when sugar prices are very high as during 1920, the effect is to cut deeply into the profits of the company. When sugar is low, the cost of operation is less, the margin of profit is greater and the company is consequently in a position to make a good showing.

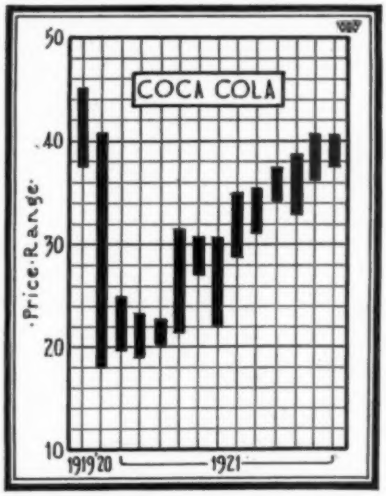
During the current year, the company has gradually liquidated its high-priced sugars and recently has been in a position to take advantage of the prevailing low prices. So low are sugar prices now in comparison with those of 1919-1920 that it has been possible for the company to effect a considerable cut in the price of its product which should thereby greatly stimulate the volume of its sales.

For the first nine months of the current year, the volume of business amounted to only 70% of last year. Yet in this period earnings amounted to $2,800,000 after all charges but before preferred dividends. After deduction of the latter item this would amount to about $4.50 a share on the common stock or at an annual rate of $6.00 a share. In 1920, the full year's earnings amounted to only $2.61 a share. Thus it will be seen that, despite the volume of business this year being only 70% of that of last year, earnings are running at least twice as high. The principal reason for this phenomenon is the fact that, in addition to other advantages, the company this year has had the advantage of a low-priced sugar market.

Should the company put into effect another price reduction and thus greatly stimulate sales next year, it is probable that the margain of profit would be sufficiently large to result in an even better showing.

Bank Loans Practically Eliminated

One of the interesting facts about the company is that it has practically eliminated all bank loans. **At the end of 1920, this item stood at about $8,500,000. Such was the efficiency of the management that, by November 1, this figure had been reduced to $2,500,000 and it is believed that the company will enter 1922 with no bank loans at all.**



Other points of progress have been the raising of the cash figure, reduction of inventories and general building up of net quick assets. The company is slow about publishing the actual figures but the points brought out above are derived from authentic sources and may be accepted as the true condition of the company.

Such was the progress made that the regular semi-annual dividend of $3.50 a share on the preferred stock which had been deferred in June was declared payable Oct. 1. At the end of October, the directors met and declared a $1.00 dividend on the common stock. The last previous dividend paid on this stock was in 1920.

No Funded Debt

The company has no funded debt and the $10,000,000 preferred stock constitutes the first capital obligation. This issue is of $100 par value, is cumulative and pays dividends of $7.00 a share. There is no voting power attached except in the event of six months default of dividends.

The common stock is listed on the New York Stock Exchange and there are 500,000 shares of stock outstanding. There is no par value. This stock was deposited with the Guaranty Trust Company under a voting trust agreement to expire in 1924. This voting trust may be terminated at any earlier time by a vote of the majority trustees. The trust agreement, it is understood, was due to the desire of bankers, who had loaned the company considerable sums against sugar commitments, for protection. With the last of the company's high-priced sugars gone, there would seem to be little reason for continuing the trusteeship very much longer.

This year Coca Cola common will earn between $5 and $6 a share. There is no way of telling what the company will earn next year but it would seem that it sufficiently merits confidence on the score of being a good earning proposition.

Yielding Over 10%

It is to be presumed that the last dividend of $1 a share was a quarterly declaration which would put the stock on a $4 annual basis. Based on the current price of about 40, and as a $4 stock, the return on the money invested here would be about 10%. The stock sold as low this year as 19 and the current price of 40 is only 3 points from the highest price of 43. The market action of the stock indicates that it is strongly held and that its holders are not inclined to part with their stock even at this point.

A curious and interesting feature is that the common stock has very little actual asset value except that represented by the $24,960,000 good-will and trade-mark. However, a company that has high earning power without showing much asset value for its common stock is certainly at least as attractive as a company which can show a high asset value for its junior stock—a purely theoretic factor—and which has never been able to make a good showing on the earnings side. From a practical viewpoint therefore, the fact that Coca Cola common has little tangible asset value has little real significance. Furthermore, in the event of liquidation, it is entirely unlikely that the good-will and trade-marks of the company would be sold at much less than the figure carried so that in an ultimate sense the common stock represents genuine value.

Answers to Inquiries

On Industrial Securities

DAVISON CHEMICAL

Business—Capital—Earnings

Q.—Kindly furnish me a report on Davidson Chemical. Its business, capital, earnings, etc., and whether in your opinion it is a good investment at the present market price of 55.—C. G., Pittsburgh, Pa.

A.—Davidson Chemical Company manufactures and sells Sulphuric Acid, Acids and Phosphate, and Silica Gel. Capitalization consists of $4,330,000 bonded debt and 200,000 shares of stock no par value. The recent important advance in the stock has been largely because of the large profits the company expects to make from its new bi-product, Silica Gel. It is anticipated that the company will form a new corporation to handle this product and give the stock of this new corporation to present stockholders in the form of a stock dividend. The new product appears to have good possibilities, but of course this has not as yet been thoroughly demonstrated and the stock must be regarded as decidedly speculative.

For the year ended December 31, 1920, the company earned $2.15 on its stock. Balance sheet as of December 31, 1920, shows a fairly strong financial condition.

CHANDLER MOTORS

Is Dividend Safe?

Q.—Please advise me as to the present status of Chandler Motors. Is the dividend safe and what is the outlook for 1922?—K. R. V., Boston, Mass.

A.—Chandler Motor Car Co. for the year ended December 31, 1920, earned 16.68% on the common stock as against 17.15% in 1919. Business in the current year has fallen off very heavily, however. For the six months ended June 30, 1921, the company was reported to have shipped 3,450 cars, as against 15,552 cars in the corresponding period of 1920.

It is not expected that the company will earn in 1921 much more than the present $6 dividend being paid on its stock. Under these circumstances the dividend must be regarded as uncertain to say the least.

Of course, Chandler may turn right around and have a very profitable year next year, but the car seems to have lost somewhat in popularity and in view of the element of uncertainty existing in this stock, we would be inclined to put our money into something with more definite possibilities. Suggest a switch into Allis Chalmers paying $4 per share per annum and selling around 36.

AMERICAN SUGAR REFINING

Should It Be Held?

Q.—I hold some American Sugar Refining common, purchased at much higher prices, and am uncertain whether I should hold on or sell. Do you believe that the company will be able to resume dividends on the common stock soon? —R. J. H., Stamford, Conn.

A.—American Sugar Refining Company will undoubtedly have further large sums to write off for inventory depreciation this year and its report is pretty sure to be a poor one. It does not look to us as though dividends would be resumed on the common stock for some time to come and we do not favor it as an investment.

The market has been rather strong of late, and as there is a fair sized short interest in sugar common, it is possible that a rally may be engineered to drive these shorts in.

For the year ended December 31, 1920, the company reported earnings of 2.73% on the common stock, but this was before deducting $10,200,000 reserve for inventory losses. While the past record of the company is an excellent one, it has taken a very heavy loss in the past year and a half and it may be quite some time before it recovers.

Would take advantage of any fair sized rally in this stock to sell out and switch into some stronger issue.

INTERNATIONAL MERC. MARINE

Q.—International Mercantile Marine stocks have been strong recently and I would like to have your advice as to the prospects of the common stock. What is the financial condition of the company?—R. K., New York.

A.—International Mercantile Marine Co. made very large profits during the war period and as its dividend payments were conservative, it is now in a very strong financial condition. As of December 31, 1920, working capital totalled $35,000,000.

The current year has been a very poor one for the shipping industry and it is not expected that the company will show much more than the preferred dividend earned. Considering the unusual conditions prevailing, this should be regarded as a very fair showing.

Accumulated dividends on the preferred stock which must be paid before the common can get anything, now amount to 42%. It is decidedly unlikely that the company will in the future show the very large earnings reported in the war period and some time will be required before these back dividends on the preferred stock can be paid off. The common, therefore, must be regarded as a long way from dividends.

This company has a very fine fleet of passenger and freight liners, and under normal conditions, it should be able to show the preferred dividend earned with a large margin to spare.

At present levels around 14 the common stock, we should say, has fairly good speculative possibilities for the long pull, depending, of course, on developments in the shipping world.

ADVANCE RUMELY

Common Stock for Long Pull

Q.—Do you believe that Advance Rumely common stock is a good stock to hold for the long pull? Has the company very large bank loans at the present time?—G. F. P., Chicago, Ill.

A.—Advance Rumely Co., for the year ended December 31, 1920, earned 3.84% on its common stock as against 12.82% in 1919. Like all the harvesting machinery manufacturers, this company was caught with a rather large inventory when the decline in prices took place and in the current year will undoubtedly have large amounts to write off for depreciation in this account. The fall in the price of farm products also hit these companies hard as the farmers stopped buying and business this year will be very poor. While there is no accurate forecast as to what the company will show in 1921 a good sized deficit is expected.

In August the company reduced the dividend on the preferred stock to 3%. Working capital of the company as of December 31, 1920, was $13,700,000. Because of heavy inventories the company is now borrowing about $2,000,000 at the banks.

Under normal conditions, this company has shown a fairly good earning power and the common stock appears to have possibilities if held for the long pull. We are inclined to the opinion, however, that it will be slow as no particular improvement has been noticeable in this company's business recently.

BRITISH EMPIRE HELD

Its Capitalization

Q.—Can you give me any information on British Empire Steel? What is the present capitalization?—C. D. H., Newton, Mass.

A.—British Empire Steel Corporation, Ltd., is the consolidation of the Dominion Steel Corporation Ltd., and its subsidiaries, the Nova Scotia Steel & Coal Company Ltd., and the Halifax Ship Yard Ltd., which was made effective April 1, 1921. The bond and debenture issues of the various companies included in the consolidation remain undisturbed. The stock issued consists of preferred series B 7% cumulative, $19,950,000, 2nd preferred 7% cumulative, $57,350,000; common, $24,450,000. On September 21, 1921, the company declared an initial dividend of 1¾% on the first preference series B stock. For the year ended December 31, 1920, net income of the consolidated companies was $6,235,137.

AMERICAN BEET SUGAR

Analysis of 6% Preferred

Q.—I am a subscriber to your Magazine and would like an analysis of American Beet Sugar 6% preferred for specvestment at present price of 58.—H. E. R., 1,000 Island Park, New York.

A.—American Beet Sugar for the year ended March 31, 1921, reported a surplus of $133,509 as against a surplus of $2,425,810 in 1920. Of course this decrease in earnings was natural enough in view of the big decline in the price of sugar. As of March 31, 1921, the company had a working capital of about $5,000,000.

In view of the fact that the preferred stock issue is only $5,000,000 and that there are no bonds ahead of it, it appears to be in a rather strong position and we regard it as an attractive speculation at these levels.

CHICAGO PNEUMATIC TOOL

Its Outlook

Q.—I hold some of the common stock of the Chicago Pneumatic Tool Co. Have you any information as to how the company is doing this year? How do you regard its outlook?—C. H. Chillicothe, Ohio.

A.—Chicago Pneumatic Tool for the year ended December 31, 1920, earned 14.31% on the common stock as against 10.32% in 1919 and 8.31% in 1918. Earnings in this year have fallen off due to the general depressed condition in the steel trade. For the first five months of 1921, the company was able to operate at a small profit after liberal charges for taxes and depreciation. Under the circumstances this can be regarded as a fairly good showing.

The company has shown a good earning power for a long period of years and as it has been conservative in dividend payments has built up a strong financial condition. Working capital as of December 31, 1920, was $9,290,000. Capitalization consists of $12,397,600 stock, par value $100. There are no bonds.

In view of the strong financial condition and of moderate capitalization we regard this stock as having excellent speculative possibilities.

A $3,000 INVESTMENT

Nine Stocks Suggested

Q.—Recently I received about $4,000 cash as a legacy. I am not dependent on it, so ventured to follow your "Bond Buyer's Guide" and bought the following bonds with the idea of getting a good return on my investment and to have my principal appreciate in value:

$2,000 Missouri Pacific gen. 4.
$2,000 St. L. & S. F., Prior Lien 4s.
$2,000 Southern Railway 4s.

I have about $3,000 that I can afford to use for specvestments and want to buy stocks with it with the idea of holding for a profit. Stocks that pay dividends appeal to me most as I will be getting income while holding for a profit. What do you advise?—P. L. C., New Orleans, La.

A.—In our opinion you have made an excellent selection of bonds and we believe they will gradually work toward higher levels. For an investment of $3,000 in dividend paying stock, we suggest a selection of preferred stock on which the dividends appear to be reasonably secure and which should gradually advance in price, as follows:

California Petroleum 7% preferred,	price..	84
General Motors 6% preferred.....	" ..	73
B. F. Goodrich 7% preferred......	" ..	84
Bethlehem Steel 7% preferred.....	" ..	91
Kelly Springfield 8% preferred....	" ..	90

A list of common dividend payers that we think well of and which have good possibilities of advancing follows:

Middle States Oil	div.	$1.20	15
Stewart Warner Speedometer	"	2.00	24
Cosden & Co................	"	2.50	33⅜
Allis Chalmers..............	"	4.00	38

Of course, if you select the common stock, the risk involved will be greater than in the preferred stocks.

STEWART WARNER

Q.—Would you advise buying Stewart Warner Speedometer at present prices? Is the present dividend of $2 per share being earned and is the company strong financially?—T. V., Milwaukee, Wis.

A.—Stewart Warner Speedometer for the nine months ended September 30, 1921, reported net income of $753,768, equal to $1.59 per share on its stock. This compares with $3.74 for the same period of 1920. The 1921 earnings, however, were, after deducting a loss on inventories, of $500,000. If earnings in the last three months of 1921 should show about the same rate, the company will succeed in earning its $2 dividend this year, with a slight margin to spare.

The balance sheet of the company as of September 30, 1921, showed it to be in excellent financial condition; current assets totalling about $6,500,000 as against current liabilities of only $470,000. In view of this strong financial con-

dition, it would seem reasonable to expect that the company will maintain its present dividend of $2.

This company has shown an excellent earning power over the past several years and would appear to have a bright future. We regard the stock as an attractive speculation at present levels.

GOODRICH COMMON
Long Pull Products

Q.—Will you kindly favor me with your report based upon the latest available information as to the outlook for Goodrich common stock at present levels if purchased to hold for the long pull? —H. J. A., Paterson, N. J.

A.—In July the directors of Goodrich stated that, due to generally prevailing conditions, sales for the first four months of 1921 were unsatisfactory, but that after May 1, there was a substantial increase and the liquidation of the inventory was sufficient to enable the company to reduce bank loans the first of the year approximately 50%, from $29,000,000 to $14,500,000. This company, however, has further inventory losses to write off this year, and it is not expected that a very glowing report will be issued.

The company appears to have turned the corner, however, and while a resumption of dividends on the common may be some ways off, we regard the stock as an attractive one to hold for the long pull.

FOR A WOMAN
Investment of $4,500

Q.—My mother will have about $4,500 to be invested in a short while. What would you suggest as absolutely safe, and yet yield a good rate of interest?—R. R. H., Frankfort, Ind.

A.—You cannot purchase securities that are absolutely safe and still get a liberal rate of interest. No security can be termed absolutely safe. If you want the safest that it is possible to get, you should limit yourself to United States Liberty or Victory bonds or some of the higher grade state issues.

We take it, however, that you desire a somewhat higher yield than these would give you and suggest the following bonds which can be regarded as reasonably secure and suitable for a woman:

New York, Chicago and St. Louis 1st mortgage 4s, 1937	82	5.70%
Armour & Co., real estate, 4½s, 1939	85	5.85%
New York Telephone 6s, 1941	99	6.10%
Southern Pacific collateral trust 4s, 1949	76	6.05%
Illinois Central collateral trust 4s, 1952	76	5.65%

The following bonds are not so high-grade as the preceding ones, but are reasonably well secured:

Detroit Edison ref. 5s, 1940	86	6.25%
Missouri Pacific general 4s, 1975	51	6.80%
Lackawanna Steel 5s, 1950	81	6.45%

BETHLEHEM STEEL CORP'N.
Those 7% Notes

Q.—I hold some 7% secured, serial gold notes of the Bethlehem Steel Corporation due 1922. They have been called for redemption on January 16, 1922. This bond can be converted into a 6% consolidated 30 year bond on a 6½% basis. Before taking any action I would like your opinion regarding the advisibility of making the conversion, bearing in mind that my investments are made for financial independence and the securities I purchase must have assets and earnings behind them that assure saftey of principal. Please advise how many times the interest of the entire funded debt was earned over a five-year period.—S. H., New York city.

A.—Believe it would be advisable for you to convert your 7% Bethlehem Steel secured gold notes into consolidated mortgage 30 year 6% bonds series A due 1948 on a 6½% basis. This latter bond, we believe, can be regarded as an excellent investment as there is plenty of security behind it, and earnings are showing the interest earned with a very large margin to spare. A glance at the table shown on this page will show how large this margin is when you note the huge sums the company has charged off for depreciation each year.

The bonds are followed by $14,908,000 7% preferred stock, $30,000,000 8% preferred stock, $14,862,000 common "A" and $45,000,000 common "B." Dividends an the "A" and "B" stocks are being paid at the rate of 5% per annum.

DEERE & CO. PREFERRED
Dividend Requirements Well Covered

Q.—We hold Deere & Co. preferred at much higher prices and we have been much concerned of the tremendous decline of this stock from around 100 to about 65 and would like to know whether we should take our loss or switch into a stock like General Motor preferred.—The B. M. Co.

A.—Deere & Co. has not yet furnished its annual report for the year ended October 31, 1921, which is the fiscal year of this company. Both for last year and the year before, the company had a total income of approximately $6,500,000 available for interest charges and preferred dividends. Interest charges and depreciation consumed less than $2,000,000 last year, while preferred dividend requirements are $2,450,000 annually. For the past three years at least the company has been able to cover its preferred dividends at least twice, and in two years was able to put forward a very substantial surplus of well over $2,000,000 annually. Its total surplus at the end of the last fiscal year was a little over $17,000,000. Due to the slump in the farming industry, this company suffered in common with others. Deere preferred formerly sold in the neighborhood of 100, and recent low prices were the lowest in its history.

All the General Motor preferred issues are very well thought of by us, and we believe that in spite of slight advances in price for the past month, these preferred issues are still selling at bargain levels. We rather hesitate, however, to suggest your taking a 35 point loss in Deere & Co. preferred in order to purchase General Motors pfd., as all four have about equal chances of advancing in a strong market, namely Deere and the three GMO preferred stock issues.

U. S. INDUSTRIAL ALCOHOL
This Company Seems Well Fortified

A.—I would like to know whether the dividend of I. D. is in doubt and if so whether the stock is cheap at recent prices? It does not seem to act very well and friends of mine who seem to know the situation tell me that the company will very likely have to pass its dividend. In such a case, would not the stock sell much lower?—G. T. N.

A.—U. S. Industrial alcohol earned $11.63 last year, against $10 in 1919. Net working capital at the end of the year amounted to $10,000,000, approximately, and the surplus was well over $30,000,000 at the end of last year. Considerable doubt was expressed in the financial district as to the ability of the company to continue its present dividend, and its shares declined from much higher prices to anticipate what actually happened. We believe current levels discount the unfavorable action in this direction that was decided on a few days ago, namely, to pass the common dividend. We went into the position of this company in very great detail in June, 1921, in which it was stated that "the industry faces uncertainties, and proposed legislation and prospects of German competition rather disturbed the outlook." However, the company is in a strong position even at present and has plowed back some very substantial earnings behind the common stock since 1915.

Alcohol is a "safe" industry, and we believe the selling of this stock has been very much overdone. It is possible that further pressure may be brought to bear on the shares for a time, due to the absence of dividends, but while hesitating to predict the course of temporary fluctuation, if the stock should go much lower it ought to be a speculative purchase for a long pull.

BOOTH FISHERIES
Is It a Good Speculation?

Q.—Booth Fisheries is now selling at a very low price and I have been looking out for a stock of this character which I can buy for speculation in the hope of selling at a much larger profit. What do you think of the common stock, and please let me know something about the earning power of the company.—H. V.

A.—Booth Fisheries Co. for the year ended Jan. 1, 1921, reported a deficit of over $1,000,000. The company owes the banks between 7 and 8 million dollars. When the decline in commodities started, this company was caught with a very heavy inventory of canned goods which it is now trying to wipe off. The United States Government dumped large quantities of canned goods on the market and made it very difficult for Booth Fisheries Co. to get rid of its stock, and then only at a very heavy loss. The company is in a rather precarious situation, and it is by no means certain that it will be able to pull through without a reorganization. We do not favor this stock.

HUPP MOTOR
In Strong Position

Q.—Although a stockholder of the Hupp Motor Car Corp., I have not seen any recent statement of its earnings nor a balance sheet that would guide me in holding or selling its common stock and I look to you for an opinion on the subject. I am informed that you have been favorably disposed towards this issue and would like a late opinion from you.—T. de M. G.

A.—Hupp Motor Corp. for its last fiscal year earned $5 a share on its common stock. No statement of earnings had been issued since this report. In 1921, however, the company did a good business. In July, 1,900 cars were shipped, in August about 1,600, and in September about 2,000. The balance sheet of the company as of June 30, 1921, shows a working capital of about $2,500,000. This company has made steady progress in the past few years, and its car has increased in popularity. We believe the stock can be regarded as a good motor speculation.

NATIONAL ENAMELING
The Dividend Outlook

Q.—What is your opinion of National Enameling & Stamping?. Will the 6% dividend be continued?—C. A. W., Fort Bridger, Wyoming.

A.—National Enameling & Stamping Co. has a good record since the war. In 1920, 17% was earned on the common stock, in 1919 20%, in 1918 14%, in 1917 23%. Before the war, however, the company's earnings were rather poor and the stock must be regarded as speculative for the reason that certain of its lines are facing competition from Europe. The company has been conservative in its dividend policy, however, and has in the past several years greatly strengthened its financial position. As of Dec. 31st, 1920, working capital was over $10,000,000, which compares with a total capitalization of $27,500,000. The company's report for 1921 is expected to be a poor one as several of its plants closed down due to poor business. It is not thought likely that the company will be able to continue to pay dividends at the rate of 6% next year. At present prices of around 39, however, we should say the stock has fairly good speculative possibilities, but there is a certain amount of risk attached.

OWENS BOTTLE
Worth More?

Q.—I hold 350 shares of Owens Bottle at higher prices. Does the situation in regard to this company warrant holding the stock?—C. J. M., Seaford, Del.

A.—Owens Bottle Co. for the nine months ended Sept. 30, 1921, reported earnings equal to $1.42 a share on the common stock. This compares with $5.03 earned in the same period of 1920. The company is the largest manufacturer of bottles in the world, and is also the manufacturer of the "Owens Automatic Bottle Making Machine," and the "Graham Automatic Bottle Making Machine." For the year ended Dec. 31, 1920, the company earned $8 per share on the common stock and about $5 per share in 1919. The balance sheet of the company as of Dec. 31, 1920, showed a strong financial condition, with working capital of $9,304,000. Capitalization consists of $9,450,200 7% preferred stock, par $100, and $17,371,900 common, par $25. Dividends are now being paid on the common stock at the rate of $2 per share per annum. This company has shown a distinctly good earning power over a long period of years, and at present prices around 27 we regard the common stock as having good possibilities. Suggest holding the stock for higher prices.

MFRS. LT. & HT.—PURE OIL
Switch One and Hold Other

Q.—I find that my wife has in her possession small blocks of Pure Oil and Manufacturers Light & Heat common stocks. These investments do not represent a very large proportion of our holdings and if their speculative possibilities are fair we would not object to holding them for a while. I will very much appreciate receiving your opinion of these issues.—D. Y. P., St. Louis, Mo.

A.—Manufacturer's Light & Heat Co. has shown an excellent earning power over a long period of years. For the current year, this company reported a deficit for the nine months of $154,201 after paying dividends. The recent advance in the price of crude oil, however, has helped the company's earnings and it is expected that for the full year the dividends will be covered. The company is in good financial condition and while the stock is speculative, it

(Continued on page 276.)

BETHLEHEM STEEL CORPORATION

Year	Net Income	Depreciation	Fixed Charges	Surplus
1916	$61,717,309	$14,850,786	$3,772,555	$43,593,968
1917	53,979,360	17,911,641	8,746,982	27,320,737
1918	57,188,769	31,510,366	9,742,012	15,930,360
1919	37,441,218	12,566,152	9,518,206	15,356,860
1920	36,351,553	13,941,514	7,951,203	14,458,836

Building Your Future Income

Lives of Great Men — 1

CHARLES M. SCHWAB:

As a boy he drove a stage over a five-mile run between two dinky little towns in northern Pennsylvania. He got into the steel business by accepting the first job offered—driving stakes. He developed from his humble beginning into America's super-salesman by nerve-tearing, go-and-get-it work.

When you meet this Schwab, you meet the sort of Capitalist you don't see in the movies, or on the stage, or the kind you don't find between the covers of a book. You meet, first of all, a gentleman. Thereafter, the business-man in him comes to the fore. But, finally—if you can keep him just long enough—the qualities that made him successful become the whole man, and you have the enthusiast for whom no job is too big or too small.

Schwab, being above all else, a *genuine* man, has won the affection of the multitudes. And his genuineness has kept that affection alive.

OTTO H. KAHN:

The product of a careful, methodical training. Kahn was born fifty-four years ago in Mannheim, of parents who had become American citizens some fifteen years before. He has concentrated on the study of banks and the practice of banking since his early youth.

Kahn, today, is a dean of American finance. His activities are enormous and his interests manifold. Today, it is a meeting of the directors of the French Theatre; yesterday, it was a meeting of the directors of the Union Pacific Railroad; tomorrow, it may be the reading of a paper on Government Revenues.

Whatever the engagement or the office, Kahn's contribution will be clear-thinking, carefully chosen words, courteous criticism or sincere and strengthening support.

Chevalier of the Legion of Honor of France; Knight of the Order of Charles the Second of Spain; Commander of the Order of the Crown of Italy—these are a few examples of the world's appreciation.

And meeting him, you will meet a sagacious, learned and sincere man, who thinks and talks as he dresses—neatly.

My Plan for Financial Independence

Figuring Out How Much Must Be Saved to Build a $40,000 Estate in 25 Years

By **H. M. P.**

FOR most men the only certain way to attain financial independence is through some plan of systematic saving. Fortunate speculations may now and then make a man independent financially, but for the average man a definite plan is essential. It matters little what income he receives, he must set aside a part of it if he is to attain his goal.

My idea of financial independence is an income of $2,400 a year, which I hope to attain within the next twenty-five years.

At an interest rate of 5% I shall require a capital of $48,000 and the problem, then, is to accumulate this amount. I have decided to reinvest the income from my savings each year and so help to reduce the amount I shall have to set aside from my salary.

How Much Must Be Saved?

A simple computation shows that at 5% interest I would have to save $1,006 each year in order to reach my goal. Obviously such a plan is not practical as it places too heavy a burden on me during the earlier years. So it seemed better to start out by saving a smaller amount the first year and increase my savings each succeeding year by a fixed amount.

To facilitate the working out of my plan I computed the constants given in Table 1, by means of which the amount accumulated at the end of any given number of years may be found. The first year's saving is to be multiplied by the constant given in the second column and the fixed amount by which the savings are increased each year is to be multiplied by the constant in the third column. An example will make the steps clear.

Example

Assume an initial saving of $420 the first year, $480 the second, $540 the third, etc. In this case the fixed increase is $60 per year. What amount will have been accumulated at the end of twenty-five years? The constants for 25 years are 47.727 and 454.542.

Initial Savings	$420 x 47.727....	$20045
Fixed Increase	$60 x 454.542....	27273
Total	....	$47318

This total is very nearly the goal which I have set for myself and the amounts to be saved are the ones I have chosen as the basis for my plan. By means of Table 1 any one can work out a combination to meet his own particular needs.

The Results to Be Obtained

Table No. 2 gives a portion of the results to be obtained with this plan. The second column headed "Principal" is the amount which is producing an income and is always equal to the total savings at the end of the preceding year. The remainder of the table is self-explanatory.

No allowance has been made for investment of the yearly savings before the end of the year. Take the fourth year, for example, when the saving is at the rate of $50 per month. Every two months it will be possible to buy a $100 bond or stock which will earn interest during a part of the year.

TABLE NO. 1

Number of Years	First Year's Savings	Fixed Increase
1	1.000	0.000
2	2.050	1.000
3	3.153	3.050
4	4.310	6.202
5	5.526	10.512
6	6.802	16.038
7	8.142	22.840
8	9.549	30.982
9	11.027	40.531
10	12.578	51.558
11	14.207	64.136
12	15.917	78.342
13	17.713	94.258
14	19.599	111.973
15	21.579	131.572
16	23.658	153.150
17	25.840	176.808
18	28.132	202.648
19	30.539	230.780
20	33.066	261.319
21	35.719	294.385
22	38.505	330.104
23	41.431	368.610
24	44.502	410.040
25	47.727	454.542
26	51.114	502.270
27	54.669	553.383
28	58.403	608.049
29	62.323	666.455
30	66.439	728.777

The rate of interest for this table is 5%.

TABLE NO. 2

No. of Years	Principal	5% Interest	Yearly Savings	Total
1	0.00	0.00	420.00	420.00
2	420.00	21.00	480.00	921.00
3	921.00	46.05	540.00	1,507.05
4	1,507.05	75.35	600.00	2,182.40
5	2,182.40	109.12	660.00	2,951.52
..	....	....	....	....
21	29,566.85	1,478.34	1,620.00	32,665.19
22	32,665.19	1,633.26	1,680.00	35,978.45
23	35,978.45	1,798.92	1,740.00	39,517.37
24	39,517.37	1,975.87	1,800.00	43,293.24
25	43,293.24	2,164.66	1,860.00	47,317.90

In the same way the investing of the interest money before the end of the year becomes an important item in the later years. Furthermore, there is the possibility of an appreciation in the value of the stocks and bonds which will yield additional profits. It is evident, therefore, that Table No. 2 is a conservative guide to the minimum savings which will bring ultimate success.

House Building No Obstacle

The building of a house should not upset this plan. If the house and lot cost $7,500, it means that that amount of money must be deducted from the principal and cease to draw interest. I must charge myself this interest ($375) each year and invest it. At the end of the twenty-five years I would have my own home and a capital of around $40,000. With no rent to pay the income from the $40,000 will take care of me nicely.

Of course, I hope and expect to do better than my plan calls for, but it serves as an indication as to what saving is necessary. An estate of this size would be much larger than the average.

How Many Gilt Edge Bonds?

Reader Wants to Know If Our Bond Buyers' Guide Exhausts the List

The following letter has been received: *Editor,* THE MAGAZINE OF WALL STREET:

SIR: I am very much interested in your publication, THE MAGAZINE OF WALL STREET which, in my travels commercially, I buy from time to time. I think your information guide to Bond Buyers wonderful. There are certain things about it, however, which are not fully clear to me. For illustration, I have your issue of November 26. On page 95 under the heading "Gilt Edge Bonds" there are 14 Railroad Bonds; 9 Industrial Bonds and 8 Public Utility Bonds. I would thank you if you would advise an investor of limited knowledge whether, out of the several different bonds dealt in on the New York Stock Exchange, these few issues are the only ones you feel entitled to the rating of "Gilt Edge"?—H.

In preparing the Bond Buyers' Guide, our staff made as exhaustive a search of the bond list as it was possible to make. After this search, there was compiled a list of the highest grade bonds which, at the same time, were selling to yield a comparatively high income on the investment. This list, of course, included a large number of different issues. It was condensed as much as possible, for the sake of brevity and directness.

The fact, then, that a bond does not appear in this list does not necessarily mean that it is not Gilt Edge. The way to use the Guide is in the positive and not this negative sense. The Gilt Edge list simply includes the more important issues which, in our opinion, *are* Gilt Edge and, at the same time, offer good opportunities in point of income and length of maturity.

We might add here that, whatever use you may make of the Bond Buyers' Guide, you should not fail to make use of the comment accompanying it. The Guide represents recommendations which are, to a degree, predicated on good conditions in the bond market. Conditions in the bond market as they develop, are fully covered in the comment. By reading it we think you will keep in close touch with the situation.

Incidentally, you have probably noted the large advances scored in the bond market in recent months. This is the best proof of the possibilities that lie in really high-grade securities.

What Will You Do with Your Bonus?

A Way to Make It Larger

By FLORENCE PROVOST CLARENDON

THIS is the time of year when the income of many salaried men and women will be increased by a substantial extra payment in the form of a bonus. This increase is apt to be viewed by some thoughtless wage earners in the light of money to be spent along the lines of "Easy come, easy go"; but the more thrifty ones will seek some channel of investment for at least a portion of this bonus, with a view to saving for the future.

To save *all* of the bonus, and to abstain from indulging in some longed for pleasure or added comfort, is perhaps expecting too much of the average man or woman. After all, we want to gather a few roses by the way, even if they are bought at hot-house prices. The prudent recipient of this salary addition, however, will appreciate the opportunity it gives for saving money without undue stricture of ordinary living expenses. The bonus is, in currest vernacular "A little bit of all right," and the manner in which its owner disposes of it gives opportunity for the psycho-analyst to read character and study habits.

What will you do with *your* bonus?

That New Budget Book

The fair leaves of many new Budget Books recorded on January 1st of this year, the intention of the diarist to save money regularly and systematically. Many of these New Year optimists fell by the wayside after but one or two attempts to increase, or start, their Thrift Account. Some, alas, got no further on the right road than to make the resolution.

There is an essential grace in the practice of thrift which marks it as one of the cardinal virtues. Aside from inculcating a habit of economy and a healthy spirit of self-denial, its persistent observance arouses a feeling of self confidence which can only be enjoyed by those who have prudently set aside some of their substance towards future needs, for money saved brings "the glorious privilege of being independent."

The Spending Habit

Spending, as well as saving, is a habit which, once formed, is apt to grow. Most salaried people enjoyed larger incomes during the recent years of plenty than they would have received in less prosperous times. There was not the abnormal increase in the income of the salaried class which obtained among a large proportion of the industrial wage earners; but the pendulum swings both ways, and the factory and mill hands are now experiencing a correspondingly greater *decrease* in income than that portion of the clerical class which has suffered a cut in salary.

Unusually large bonuses were paid to many clerks in the past few years. An evidence of the direction in which some of the bonuses were invested was indicated by the prevalence of expensive fur coats in the downtown business districts at Christmas time, and the many new motor cars which were parked in front of modest suburban homes. Both men and women clerks had the opportunity to realize some long desired luxury, the pleasure in which was enhanced by the knowledge that it represented the fruit of diligent and faithful service in business life. The buyer of such luxuries, however, should take into consideration the rapid depreciation of these investments, and adopt the precaution to lay aside part of the bonus for comfort in future years when the fur coat is motheaten and the car is on the scrap heap. Present luxuries ought not to be bought at the expense of future necessities.

Many Ways to Use Money

There are many ways of saving and investing money, but it should be borne in mind that there is a wide difference between starting a savings fund by means of sound investment, and risking money in speculative schemes. Money saved by self-denial to provide independence in old age must be invested with conservative and cautious forethought.

The man or woman on limited income should invest money with the primary object of *saving*. Thus, the safest and best investment will often yield a lower interest return than that offered through less conservative channels where alluring dividends are promised. But the rate of interest on a savings fund is a secondary matter to the permanent security of the principal.

Liberty Bonds and other guaranteed securities are safe investment for the bonus, while money deposited in savings banks or high grade building loan associations increases the thrift fund by assured and satisfactory interest returns.

The Best Plan

Perhaps there is no better nor more systematic manner of building up a savings account than by means of investment in a life insurance policy, for it has a twofold benefit: it builds a thrift fund, and guarantees as well protection to a beneficiary named by the investor.

The business woman will find that an endowment policy, running for such length of time as she may select—10, 20, 25 or 30 years—is an investment for part of her bonus which will encourage her to save regularly and systematically. Many young men with no dependents do not appreciate the possibilities in life insurance investment as a savings fund for old age. For instance, the old age Income policy guarantees a monthly income to the insured on his attaining age sixty—the time of life when his earning power is beginning to wane. The policy provides as well protection for a dependent in event of the investor dying before reaching sixty years of age. The income to the insured may be provided to be payable for ten years—from age 60 to age 70—or be payable *during the lifetime of the insured* after he attains sixty years of age, thus guaranteeing a modest independence to a man in the evening of life when he needs it most.

It ought not to be necessary to suggest to the married man that he should apply part of his bonus towards increased insurance protection for his family. Yet the reason for making the suggestion often exists, and the reply from the man approached frequently is, "I have all the insurance I need." It is more essential, however, that he carry all the insurance *his family would need* in event of his untimely death.

If he carries sufficient life insurance to maintain his wife and young children after his death *in the same manner of living they now enjoy*, then let his name, like that of Abou Ben-Adhem's, lead all the rest.

That Home

Reader Figures Out the Financial Side of Home-Owning

THE following letter has been received from a reader of THE MAGAZINE:

Editor, THE MAGAZINE OF WALL STREET.

Sir: I am not familiar with Building & Loan Associations, but am attracted by what I hear.

On the basis of investing $500 (not depositing) for a twelve-year old boy, I have seen no clear figures on procedure as to how to get on, or the result at the get off. My idea is that at maturity of original investment, the result is to be re-invested for further enhancement. Have your specialists in this line any light?

Your discussions on Renting vs. Home Owning interest me. I have seen no clear presentation as to the financial aspects of the matter.

Let us assume that a man has $3,000 invested at 7%, income being $210. He knows just where he stands.

A house that would cost $10,000, probably would rent at $1,200 per year. If he rents such a house, he also knows just where he stands.

(*Continued on page 292.*)

How One Man Made Himself Save Money

An Amateurish Scheme That Developed Into a Practical System of Saving

By **K. O. LOWELL**

BEFORE I began to earn my own living I figured out several plans to attain financial independence within a period of twenty to thirty years from the time I should first face the cruel world without financial resources, and with no capital except an education. These plans all looked fine on paper. Each one was based on a certain schedule of estimated earnings, and the assumption that I would set aside, every month, a certain percentage of these earnings for investment.

A sliding scale of earnings was carefully laid out, so as to make due allowances for a modest monthly stipend during the first several months of my employment, and thereafter an increase in monthly income at suitable intervals, of say six to twelve months, so as to give me time to demonstrate to my employer the increased value of my services. After making due allowances for personal living expenses, after the payment of the premium on a life insurance policy in favor of my mother, to reimburse her to some extent for the expense of sending me through school, and after setting up a small reserve to take care of certain incidental financial obligations, I figured that I could begin by saving a very small sum monthly, and later increase this sum by an amount almost equal to my anticipated advances in salary. I was pleased to find that these gradually increasing monthly savings, if invested at compound interest, would make me a rich man by the time I should reach the age of about forty, and that by that time I would be virtually independent of the necessity of working for a salary, should I elect to devote my entire energy to the financing of meritorious business enterprises designed to yield handsome returns on capital, and give employment to a great many struggling, worthy young men who would be starting out on a career as I had done,—a typical air castle!

Fine History, But—

This was all very fine in theory, but, sad to relate, I had neglected to take into consideration the various human weaknesses that beset a young man, such failings as those that may be charged to heredity, or the influence of environment. For example, I did not realize in the beginning that as one's income increases, one's standard of living has a tendency to rise also, until it trips over the heels of net profits; and then, if not held down with a firm hand, it skids into various carefully designed reserves and sinking funds, until that apparition called "debt" is ever ready to rise up and shake a warning finger, and pull aside the curtain before a picture symbolical of ruin and slavery.

At the end of a year I found that I had saved almost nothing except the first year's premium I had paid on my 20-year endowment life insurance policy for $3,000. All the rest of my income had been "absorbed" by current expenses, and "miscellaneous" and "incidental" disbursements. I realized for the first time the value of a small endowment policy as a means of forcing a young man to save in spite of himself, for it was apparent that if I had not paid this premium, the money would have been charged off to "miscellaneous account" along with the rest that was gone. I have never had occasion to change this view, and I have developed a profound respect for the good work that a conscientious life insurance agent accomplishes in the interest of young men who are beginning to earn money of their own.

A HANDFUL OF TRUMPS
And the Kind of Hand That Made K. O. Lowell Independent

Lessons Learned

My first year's balance sheet taught me a valuable lesson, namely that I must keep a more careful analysis of my expenses, with a view to keeping down non-essential disbursements, as well as trying to increase gross earnings. I opened a set of books with myself, and went through all the motions of keeping accounts just as if I were a small corporation. I took off a monthly trial balance, and soon began, as president of the corporation, to insist upon a more careful handling of the stockholder's (my own) funds, by the "development and equipment department" (myself), and the "operating department" (myself). The results were both instructive and constructive, and I can recommend the practice as worth many times the time and trouble.

The necessity of resorting to systematic and mechanical methods of saving small sums was apparent, and one of my first schemes was to clip off a small percentage of every salary check, and deposit it in a savings bank at 4% interest. I began by sending to the savings bank for deposit, my own check for 5% of my monthly salary as soon as I had deposited the salary check in my open bank account. By making this deposit before the 5th of the month, my savings deposit drew interest from the first of the month. Some savings banks credit interest on all deposits made before the third of the month, and others go so far as to credit interest if the deposit is made before the 5th, or even the 10th of the month, provided of course that the amount is not withdrawn before the following January 1st or July 1st, on which interest is usually credited and compounded.

"Corporation" Accounting

This 5% deduction was considered in the light of an expenditure and promptly forgotten, but on my "corporation balance sheet" it appeared as an "account receivable" among my "current assets." The deduction of 5% was never missed, so I raised the ante to 10%. This appeared to be my limit for a time, but I resolved that whenever I should receive a raise in salary, I would at once increase my "investment in savings banks" before "increased standard of living" could get at it and absorb the whole of the added compensation for my services. This proved to be a wise and necessary precaution, for I learned that the "operating department" (myself) was at all times prone to appropriate rather freely the gross income of the corporation (myself) unless it was held down with a firm hand by the "board of director" (myself).

About this time several trust companies in my locality organized new savings departments and, as my name got on their mailing lists of "prospects," I received urgent invitations to open new accounts. Some of the hooks were baited with the offer to accept an initial deposit of 50 cents, on receipt of which the bank would open the new account with a credit of $1.00, provided the credit would not be withdrawn under six months. With a

(*Continued on page 296.*)

Mining

Will Mining Companies Prosper in 1922?

The Outlook for Copper, Lead and Zinc—Are Mining Securities Attractive?

By **D. I. CASETT**

WHEN we say that the outlook for mining is better, we should explain whether we are viewing the industry from the standpoint of mining operations, and the probability of net profits from these operations in the very near future, or whether we are considering the prospects of profits from advancement in the price of mining shares.

A few mining companies are operating at a margin of profit at present; others are struggling to break even, and are hanging on with the hope that increased metal prices will soon come to their rescue; but most mining companies, including many large corporations that are substantial profit-earners in normal times, are shut down and accepting substantial losses in the form of carrying charges through a period of depression.

Therefore, if we were considering the mining industry from the standpoint of an investor for income only, we would be compelled to admit that only a few operating companies, and by no means the most promising, would measure up to our specifications.

Discounting Future Earnings

On the other hand, if we are viewing the situation with the idea of making the most of it, and from the standpoint of one who is an investor for speculative profit as well as income, or for speculative profit even in the absence of immediate income, we are forced to consider the fact,—which is so important in the stock market, and which is mentioned so often that we sometimes fear that some of our regular readers will become tired of hearing it,—that the stock market discounts future prosperity and probable earnings, and that the more certainty there is with regard to these future earnings, the more rapidly they are likely to be discounted by an advance in the market price of the shares of the companies under consideration, and the earlier this discounting is likely to take place.

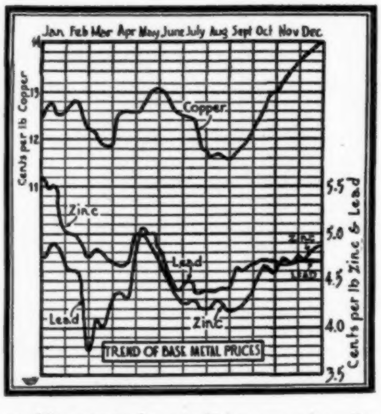
Men who are closely connected with the operating end of the mining industry, and who are in the habit of giving little consideration to stock market activities, usually delay the longest in making up their minds that it is time to buy mining shares, and they are inclined to delay their decision until actual dividends are in sight, overlooking the fact that they will be compelled to pay considerably more for their shares in consideration of this certainty with regard to dividend dates.

Increasing Consumption of Metals

Most of the important metals have been consumed, from year to year, and from decade to decade, in ever increasing quantities, and it is reasonable to suppose that this increase in consumption will proceed so long as our great industries continue to expand, and new uses for metals **multiply.**

One of the most important factors acting in favor of the mining industry during the past few weeks, is the advance in market prices for the metals.

Recently, the prices of copper, lead, zinc and tin have all shown firmer tendencies, and the more favorable and hopeful turns that have been taking place in the adjustment of important political questions that are likely to have a bearing on the readjustment of



world economic conditions, make the outlook appear brighter.

The Copper Outlook

The price of copper continues to advance, and there appears to be no disposition on the part of the larger producers to shade prices. Furthermore, the belief is gradually gaining ground that many of the large producers that are shut down at present will be in no particular hurry to resume operations until they are sure that they can at once market their product at a profit.

It is barely possible that many of these producers would be only too glad to see a situation develop wherein there would be an actual shortage of the metal for a brief period. **Such a situation would have the effect of advancing the price firmly, and with less likelihood that it would react sharply, as it would have a tendency to do if substantial production were resumed prematurely.** In spite of this, there is gossip to the effect that some large companies are considering the advisability of reopening their properties in April, 1922.

The Outlook for Lead

The price of lead is 4.70c a lb. in New York, which is the official contract price of the American Smelting & Refining Company. There is a growing tendency toward much higher prices, and it is the general belief that heavy users of lead will soon begin to lay in supplies of the metal at current levels, in view of the probability that lead will be in much greater demand in the near future.

The uses of lead are widely diversified, and it is one of the most useful base metals. Metallic lead is used in large quantities for lead cable, lead pipe, sheet lead, lead foil, lead shot, solder, babbitt metal, bearing metal, type metal, and in smaller quantities in brasses and other alloys. Lead is the most important constituent of many pigments and oxides. For example, about 15% of the lead produced in the United States goes into white lead, which has been, and will continue to be, in great demand for painting and repainting new structures and buildings that have been neglected during the past few years. The metal also goes into battery oxides, red lead, lead sulphate, glass oxides, rubber oxides, and many other oxides and chemicals.

Mining operations in the important lead districts of the country indicate promising improvement in the lead mining industry, the scale of operations of various important companies varying all the way from 65% to 100% capacity. **The general outlook for well established organizations engaged in the mining of lead and silver-lead ores is encouraging, and the listed shares of some of these companies are destined to gravitate upwards as consumption of the metal increases with the improvement in general industrial conditions.**

And for Zinc

The outlook for zinc and zinc mining must be viewed optimistically from now on, for in view of the numerous important uses for zinc, it is apparent that the future demand is likely to be very great. Among the important uses of the metal are: galvanizing, brass-making, sheet-rolling, lead-desilverization, zinc casting, and many other purposes.

The more important uses of such metals as copper, lead and zinc, have come within the last forty or fifty years, and at the rate these uses are multiplying and increasing, the future demand will call for a production that is many times that of the past. With this probability in view, together with the knowledge that

(*Continued on page* 283.)

Anaconda Copper Mining Co.

Anaconda Faces Prosperous Future

Destined to Profit Not Only from Higher Price for Copper, as Shortage Follows Present Surplus of the Metal, But Also from Its Various Diversified Industrial Activities

By C. S. HARTLEIGH

Shaft at Anaconda's "Original" Mine

CORNELIUS F. KELLY, president of the Anaconda Copper Mining Co., before a recent meeting of the American Institute of Mining and Metallurgical Engineers, said: "The destiny of the mining business is linked up with the destiny of the world, and the destiny of the copper business is linked up with the progress of the world. Believing in the future, I am a bull on the mining situation and the copper situation." Although he thought that many political questions would have to be settled before industrial progress could be expected to regain its stride, he breathed a spirit of optimism, and prophesied an intensive industrial demand in the near future for copper and all its manufactured and semi-fabricated products.

Past No Criterion

Mr. Kelly insisted that the past record was no mark for what the future would bring forth, at least so far as the consumption of copper was concerned, and that statistics with regard to the metal were not safe unless considered in relation to other factors. For example, he pointed to the increased production and consumption of numerous other metals, and the increasing potential demand for copper for electrical equipment, and electrification projects. He expressed the opinion that the fear of overproduction on account of the increase in productive capacity during the war, was not warranted in the light of past and present production and consumption of the metal.

It appears that about twenty years ago the total production of copper was about a billion pounds per annum, of which the United States produced 60%. In 1912, about two billion pounds of copper was produced, and the percentage supplied by this country remained at about 60%. In 1916, under the forced-draught output demanded by the government, the production was about three billion pounds, with our proportion still 60% of the total. The war dislocated the copper business, and fully 90% of the metal produced was for a time devoted to the manufacture of munitions. As a result of this intensive production during the war, and for a time following the armistice, an amazing stock of the metal was accumulated.

At the end of the war, the stock of copper on hand was nearly 2,280,000,000 pounds, and during 1919 and 1920 there was produced about 2,000,000,000 pounds more. After adding stocks in the hands of the Government, and copper in the form of scrap, the supply of available metal must have been well over 6,300,000,000 pounds, which was reduced to about 1,700,000,000 pounds by January 1, 1921, indicating an apparent consumption over and above production of 2,300,000,000 each year. This is more than in any year except 1915. The rapidity with which stocks of copper have been consumed, in spite of industrial depression, indicates that underlying conditions are basically sound in the copper industry, and the diversified uses for the metal make the future safe.

What Anaconda Has Done

Anaconda, along with other copper producers, has heretofore neglected the merchandising of copper, and has devoted its energies to perfecting its production operations, instead of building up its marketing activities. This condition is being rectified, and plans are being rapidly developed with a view to the efficient disposal of the company's metal, and its numerous manufactured products.

The company has been quite active recently in developing plans to market its manufactured and semi-fabricated products. Furthermore, it is not only co-operating with the Copper & Brass Research Association with a view to widening the commercial applications of copper and zinc, but it is developing a campaign in the interests of its own particular products. Its propaganda will set forth the advantages of copper and zinc shingles over those made of tile, and the advantage of their lighter weight will be emphasized, especially where high freight charges are an important factor. Copper and zinc will be recommended wherever they can displace galvanized iron, and particularly in combination with asbestos for roofing purposes.

By means of a popular advertising campaign, and numerous selling agencies, which will be developed as service stations, Anaconda will make every effort to place its products directly in the hands of the consumer wherever possible. All its products have a high reputation and the company will be in a position to market its goods with reliable guarantees as to quality and performance.

Its copper rod and wire mill at Great Falls is the most modern and efficient plant of its kind in the United States, and its wire finds a profitable market from Pennsylvania to California. The outlook for this end of the company's business is particularly bright, in view of the accumulating potential demand for heavy electrical equipment of all kinds, and the probable increased demand in the near future for copper and copper wire in connection with many important electrification plans for transportation systems, and electrical equipment in connection with super-power schemes. The importance of this phase of industrial development suggests that although Anaconda is sure to be a favored beneficiary, many benefits will accrue to the various manufacturers of heavy electrical equipment such as Allis-Chalmers and Westinghouse.

The Company's New Enterprises

It is time that the public began to have a conception of the newer industrial enterprises in which the company is destined to become very active. For example, the company's fertilizer industry is destined to expand into one of great importance and permanence. Sometime ago it completed an initial plant for the manufacture of fertilizer having three times the strength of any fertilizer produced elsewhere, and this new product will be marketable at a profit as far east as the Chicago district, if not in Indiana, and possibly Ohio.

The fact should not be overlooked that the company is one of the greatest silver producers, that its output of gold is substantial, and that at times during the past year it has produced more zinc than copper. Its electrolytic zinc was always in good demand, and commanded a premium over the market price for ordinary brands of the metal.

In its numerous mines it maintains large reserves of ore of all kinds, and recent deep level development has opened strong veins of high grade copper ore at a depth of several hundred feet below any other underground workings. These later discoveries only serve to establish confidence in the further successful development of high grade ore bodies through-

(*Continued on page* 288.)

Petroleum

Atlantic Gulf Oil Co. | *Atlantic, Gulf & W. I. S. S. Co.*

A Company That Has Suffered Reverses

A. G. W. I.'s Oil Subsidiary Encountered Many Obstacles—What Will Probably Have to Be Done

By E. R. LEDERER

THE war had brought great earnings and strength to the shipping industry. The Atlantic Gulf & West Indies Steamship Lines had accumulated at the beginning of 1919 a surplus of over 20 million dollars. This money was to be used in an oil adventure of great magnitude.

Joseph F. Guffey, who was prominent as a political leader under the Wilson administration, and who had attained a prominent position in Pittsburgh oil and gas circles, was chosen to head the new oil subsidiary of the Atlantic Gulf & West Indies Lines. This new subsidiary was called the Atlantic Gulf Oil Corporation, and was incorporated in Virginia with a capital stock of 20 million dollars, $100 par value.

Stock Never Listed

The stock was never listed on either the New York Stock Exchange or the Curb. An agreement was made with the Compania Petrolera de Tepetate in Tampico, to take over its oil properties in the Southern oil fields near Tampico, its franchise for a pipe-line to the coast and a terminal site in Tecomate, Port Lobos. The Atlantic Gulf & West Indies Co. turned over to the owners of the old Tepetate Co. 46¼% of the stock and kept 53¾% in its own treasury. Three Mexican companies were formed to take care of the three departments, production and refining, pipe-line transportation and shipping of the crude, fuel oil and distillate.

They were the Compania Refinadora del Agwi, the Compania Oleoductos del Agwi, and the Compania Terminal del Agwi. These three companies, originally formed for reasons of administration and taxation, were only recently united into one Mexican company, called the Compania Petrolera del Agwi.

The Tepetate company had one well completed in Tepetate and two wells on lot 251, Amatlan. The potential production of these wells, considered to be among the biggest ones in Mexico, was heralded at 120,000 barrels each for the two Amatlan wells, good for several years to come.

Extensive Construction Work

An extensive construction program had to be worked out, comprising two large pumping stations and two 10-inch pipelines to a terminal and sea-loading station in connection with a 30,000 barrel refinery at Tecomate. The A. G. W. I. contracted for 14 large tankers of from 10,000 to 14,500 tons capacity at a peak price for tonnage, to carry the oil from these wells, and the refinery to the States and abroad.

Several other subsidiaries were formed by the holding company, like the Agwi Trading Corporation, as a sales organization, the Agwi Petroleum Corporation, Ltd., for England, the Compagnie Francaise Atlantique des Mazouts et Petroles as the refining and sales organization; and the Compagnie Francaise de Transport dez Mazout et Petroles as the pipeline transportation subsidiary for France, both of the two latter companies forming a large financial construction enterprise for themselves. They all were supposed to get their oil from these Mexican properties.

Ever since the organization of the oil subsidiary, the Atlantic Gulf Oil Corporation, the Atlantic Gulf & West Indies Co., although holding only 53¾% of the stock, has been identified with the rise and fall of this subsidiary and the stock of the A. G. W. I. has fluctuated as a result more like an oil stock than a steamship stock.

The Agwi never put its holdings of the oil corporation stock on the market. To cover the original construction program in Mexico, 10-million sinking fund first lien 6% bonds, ten years, were authorized and 5-million were issued, and when this money proved to be insufficient, another 2½ million 6% second mortgage bonds were issued. None of these bonds were sold on the market.

Unexpected Developments in Mexico

The developments in Mexico, especially the necessity of developing additional production when the Amatlan wells began to fail much sooner than had been expected, forced the Agwi to extend additional loans up to two million dollars to the oil corporation, besides reinvesting all of the earnings in construction. In March, 1920, the minority stockholders, i. e., the owners of the old Tepetate Company, placed through a New York banking house 25,000 shares of their holdings on the market at $87.50. This stock reached the high spot of 90 in April, 1920, fell to 65 in November and started the year 1921 at 67⅝. It has fallen ever since and recently stock was offered as low as $12½. This stock never was very active. The history of the Atlantic Gulf Oil Corporation is a series of reverses. The company had in the beginning as prosperous an outlook as any other company in Mexico. It was mismanaged. Lack of co-operation between Tampico and New York, unwillingness of the executives to heed the warnings and the advice of the few experienced oil men in the organization, led to its present condition. Another serious handicap was the strong antagonism toward this association of the other oil companies operating in Mexico, brought about by unfortunate political connections which were directed towards confiscation of properties in favor of the Agwi companies.

What Might Have Been Done

There is no doubt that costly and almost disastrous sales contracts at a time when high earnings were possible,

ATLANTIC GULF OIL CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET, MARCH, 1921.

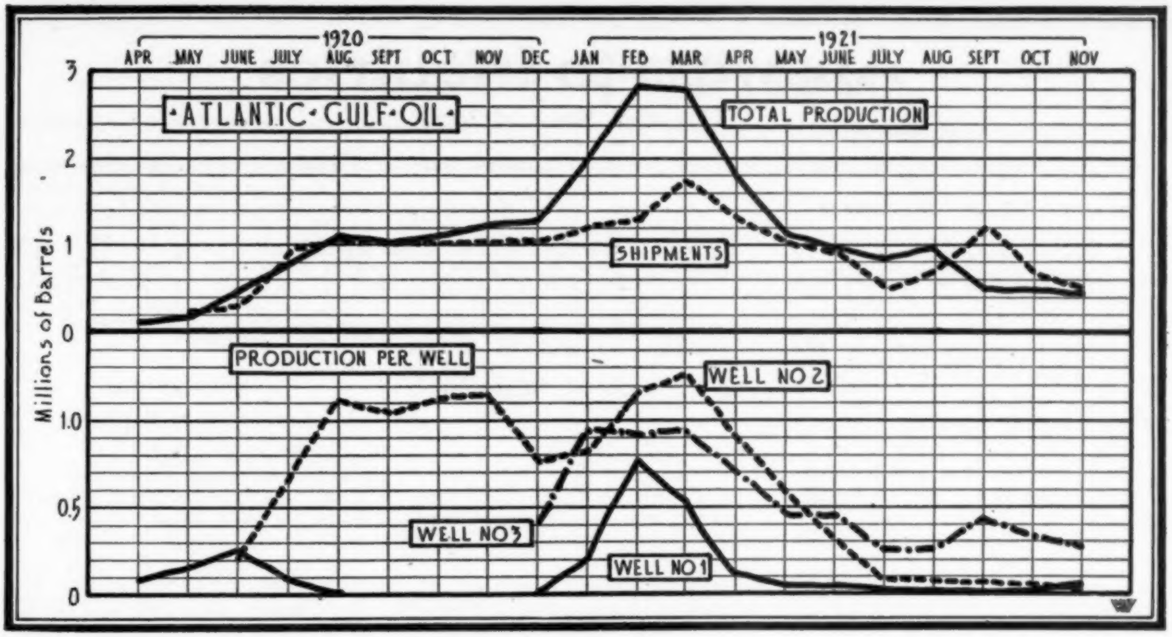
ASSETS.

Capital Assets:	
Investment for property, pipeline, terminal, topping plant, drilling rigs, etc.	$31,325,252.79
Current Assets:	
Material and supplies, crude oil stored, accounts receivable, cash, etc.	6,850,720.37
Deferred Charges:	
Expenses, salaries, insurance, etc.	913,250.20
Total Assets	$39,089,223.36

LIABILITIES.

Capital Liabilities:		
Capital stock		$20,000,000.00
Capital stock subsidiary companies		900.00
Bonded Debt—1st lien 6% bonds, $10,000,000		
Less in treasury, $5,000,000		5,000,000.00
2nd lien 6% bonds		2,500,000.00
		$27,500,000.00
Current Liabilities:		
Royalties, duties, interests, taxes, loans, etc.		6,464,432.63
Reserves—For depreciation		2,670,961.37
Profit and loss		2,452,920.36
Surplus March 31, 1921	$912,687.89	
Profit and loss Dec. 31, 1920 (Deficit)	886,822.01	
Income to March 31, 1921	2,427,008.48	
Total Liabilities		$39,089,223.36

This Balance Sheet shows a Net Profit of $1,539,679 or per share $7.70.



would have been avoided by experienced men. Proper management would have stopped extended delays and heavy shortages by improvements in handling material, and by doing away with an overhead which was startling, even for a Mexican concern.

The optimism in judging the life and production of their first wells prevented a timely, conservative, far seeing production campaign. It is a true and altogether wonderful fact, that the original 2 wells on lot 251 are still producing, of course at a very reduced capacity, of about 800 bbls. each per day; however, the well in Chiconcillo (Tepetate) never gave a drop of oil; a gusher on lot 159, Chinampa, reported in December, 1919, at 75,000 bbls., was allowed to act as a gas reservoir for all the surrounding wells and when it was finally connected with a pipeline and opened in October, 1920, proved to be an enormous gas well with no oil. The 2 wells on lot 162, in the Zacamixtle district, were destroyed with the rest of the surrounding production by the disastrous fire last July and the following flood of salt water. Therefore, it is not surprising that when the facilities for pipelines, terminals and a refinery were completed to handle 100,000 bbls. of oil a day, the production had dropped to half that amount, and fell during the last few months as low as 10,000 bbls. a day, necessitating cancellation of good contracts and naturally loss of earnings.

It is unfortunate that this policy prevents the company from participating in the present rise of the oil business and forces them to buy oil at high cost in the open market, while a few months ago, during the oil slump, instead of storing the surplus oil, it was sold to large competitors in Mexico at a ridiculously low figure.

Present Production and Outlook

The present production of the Atlantic Gulf Oil Corporation is about 20,000 barrels a day from its own wells and can be increased to 27,000 to 30,000 barrels a day through purchase from some independent producers without pipeline facilities. However, this production is more or less uncertain. The company has leased about 20,000 acres, some of which property has no more value, being in the salt-water district; a great part of this acreage has to be proven first and can be only considered as wildcat territory. This acreage is distributed over the States of Vera Cruz, Tamaulipas and Nuevo Leon. The development of these properties will necessitate quick action in drilling and probably additional construction of pipelines and terminals, otherwise the present production will be exhausted before new wells can be opened. The operating facilities are equal to the best ones in Mexico. Two complete pumping stations in the field can pump 100,000 barrels of crude oil daily through two 10" pipelines over a distance of 27½ miles to the Tankfarm at the Tecomate Terminal, Port Lobos. The modern Topping Plant at this terminal can handle 15,000 barrels crude a day and produce 12,000 barrels of fuel oil; storage is provided for 495,000 barrels of crude, 165,000 barrels of fuel oil and 75,000 barrels of distillate. The sea loading station can load two tankers simultaneously at the rate of 5,000 barrels per hour.

The company owns also warehouses and wharves in Tampico and in the field and operates a number of power barges, trucks and tractors for the transportation of material.

Conclusion

There is an investment of over 12 million dollars in these Mexican properties and it will take careful and shrewd financing, a clear vision and understanding of the oil business, in order to provide for sufficient production to keep the equipment operating at full capacity, and a reasonable overhead and form a sales policy, which will provide for sufficient earnings, to enable the payment of dividends. There are only a few stockholders of the Atlantic Gulf Oil Corporation; the owner of Atlantic Gulf & West Indies Steamship stock is really the one most directly concerned in the Atlantic Gulf Oil Corporation.

Answers to Inquiries
On Oil Securities

UNITED OIL PRODUCING CORP'N.

Q.—I am interested in United Oil Producing Co. 8s. I understand the advance in the price of oil has increased the interest payments. Please explain how this works. Is there good security behind these bonds?—R. H. K., Detroit, Mich.

A.—United Oil Producing Corporation first lien participating production gold 8s due July 25, 1931, depend upon the price of Mid-Continent crude oil for any interest received in excess of 8%. For each $1,000 of these bonds outstanding, an amount (payable the 20th of each month) equal to the full market price of 90 barrels of Mid-Continent petroleum oil per annum, prorated monthly, constitutes a special fund to be applied to payment of interest on these bonds. This fund to be distributed to bondholders at the end of each six months' period as interest.

The interest is limited to 20¼% per annum, which would be the yield with oil selling at $2.25 per barrel. Should the price of oil average more than $2.25 per barrel for the six months' period, the excess is to be transferred to the sinking fund.

Mid-Continent oil at $1.00 per bbl. will net bondholder 9% per annum; Mid-Continent oil at $1.25 per bbl. will net bondholder 11¼% per annum; Mid-Continent oil at $1.50 per bbl. will net bondholder 13½% per annum; Mid-Continent oil at $1.75 per bbl. will not bondholder 15¾% per annum; Mid-Continent oil at $2.00 per bbl. will net bondholder 18% per annum; Mid-Continent oil at $2.25 per bbl. will net bondholder 20¼% per annum.

The bonds are guaranteed principal and interest by the Imperial Oil Corp. They are secured by pledge of the entire capital stock of the Eureka Producing Co. Also secured on all the company's properties now owned or hereafter acquired.

This property includes proven oil producing properties in the Mid-Continent Oil field with a present production of 8,000 barrels of crude oil daily. The bonds, in our opinion, can be regarded as an attractive business man's investment. For each $1,000 bond outstanding the proceeds of the sale of 100 barrels of oil per annum goes to the sinking fund.

NEW YORK TRANSIT

A Good Investment?

Q.—Is New York Transit Co. stock a good investment? Does it pay extra dividends?—H. L. V., Clarksburg, W. Va.

A.—New York Transit Company, for the year ended December 31, 1920, earned 12.88% on its stock as against 20.67% in 1919. The balance sheet as of December 31, 1920, shows a strong financial condition with current assets of $6,379,000, as against current liabilities of only $2,400,000. Capitalization consists of $5,000,000 stock, par $100. There is no funded debt.

The stock is paying dividends at the rate of 16% per annum, but extras are paid from time to time. In 1917 4% extra was paid; in 1918 6% extra, and in 1920 4% extra.

The company owns and operates a triple six-inch pipe line, capable of handling forty-five thousand barrels per day, about three hundred miles, extending from Olean, N. Y., to Unionville, N. Y. Also from Unionville to Bayonne, N. J., and under the Hudson River to New York city. This stock can be regarded as an attractive oil investment.

SINCLAIR OIL

Why Hasn't It Advanced?

Q.—Sinclair Oil has not advanced as much as many other oil stocks recently. I hold some of this stock and would like your advice as to whether it has good possibilities of going higher. Will dividends be resumed in cash shortly? What are the earnings?—J. T. C., Philadelphia, Pa.

A.—Sinclair Consolidated for the six months ended June 30, 1921, reported earnings of 60 cents on its common stock. This, however, was after deducting $6,100,000 for inventory adjustment and loss on crude oil.

The recent advance in the price of crude oil has materially helped this company and it will be able to show good profits in the second six months from earnings, and also from the fact that it will be able to mark inventory up again.

Capitalization of the company appears to be rather heavy. Funded debt is $53,713,229. There are 3,909,944 shares of no par value outstanding. As of December 31, 1920, the company had a working capital of $53,789,636.

Believe the stock has fair possibilities of working higher.

It is not generally expected that cash dividends on the stock will be resumed very soon for the reason that the company has heavy sinking fund requirements, and is likely to conserve its cash resources.

WHITE OIL

Bought at Higher Prices

Q.—I have some White Oil stock purchased at much higher prices. Do you believe it advisable for me to hold on?—F. D. J., Harrisburg, Pa.

A.—White Oil Corp., for the six months ended June 30, 1921, reported earnings of 37 cents per share on its stock, but this apparently was before deducting anything for depletion or depreciation. The company has about 250 producing wells and in 1920, 1,479,987 barrels of oil was produced. The balance sheet as of March 31, 1921 shows current liabilities of $3,167,000 and current assets of $8,000,000. Capitalization consists of $2,018,178 funded debt and 681,965 shares of common stock no par value.

The recent advance in the price of crude oil has been of material benefit to this company as it is a large producer. Everything considered, we are of the opinion that it would be advisable for you to hold your stock.

HAS $10,000 FOR S. O. STOCKS

Which Should He Select?

Q.—I contemplate putting about $10,000 into Standard Oil stocks, which of these would you suggest?—C. B. W., Kingston, Pa.

A.—While some of the Standard Oil stocks may sell substantially higher, for example—Standard Oil of New Jersey—and all are doubtless worth the price, it should be remembered that many of these stocks have had a very considerable advance and it does not usually pay to buy on the big advances.

The following issues seem to have great merit and have not advanced in proportion. They would seem to be suitable for a long pull investment.

Anglo-American Oil which sells on the curb around 21. The company has substantial possibilities.

Imperial Oil of Canada also has very good possibilities and sells on the curb around 106. This is the operating subsidiary of the Standard Oil of New Jersey in Canada. The company is pursuing a very aggressive policy and we believe that ultimately this stock should sell much higher. It has a par value of $25 and pays 75 cents quarterly with extras.

Standard Oil of New York is in line for big developments and much better prices in our opinion.

We also favor Standard Oil of California around 90 which pays $1 quarterly and Standard Oil of Indiana on the curb around 88 which pays the same dividend as Standard Oil of California.

NOBLE OIL & GAS

Its Properties

Q.—I would like your opinion on Noble Oil & Gas. Has it good properties?—B. E., Detroit, Mich.

A.—Noble Oil & Gas owns 31,000 acres and leases in Kansas, Oklahoma, Texas and Louisiana, of which 4,971 acres are producing. There are about 290 producing oil wells. The company has a large casing-head gasoline plant at Burkburnett, Texas with a capacity of 50,000 gallons of gasoline per day; also a gasoline plant at Quay, Oklahoma and operates 502 tank cars. In December 1920 it was reported that the company was making 165,000 gallons of commercial gasoline per day.

Capitalization consists of $3,000,000 1st mtge. 8% bonds, $1,000,000 preferred stock par value $1 and $10,715,000 common par $1. For the year ended Dec. 31, 1920 the company reported operating income of $2,704,058. Balance sheet as of Dec. 31, 1920 showed current assets of $2,000,000 as against current liabilities of $1,300,000.

This company undoubtedly has valuable properties and its stock can be regarded as a fairly attractive oil speculation.

MERRITT OIL

Can Output Be Maintained?

Q.—I am interested in Merritt Oil and would like to have your opinion on it. Understand that the company has a good production at the present time. Do you believe that the properties have good future possibilities and that the company will be able to maintain its present output?—S. R. W., Sistersville, W. Va.

A.—Merritt Oil for the year ended Dec. 31, 1920 earned $1.20 a share on its 780,000 shares of stock. This was after deducting $1,390,282 for depreciation. During the major portion of 1920 the company received $2.75 per barrel for its oil. The price of Big Muddy oil dropped this year to a low of 50-cents a barrel, but is now selling well over $1.

The company is in excellent financial condition with a working capital of over $1,500,000. Production at the present time is somewhere between 4,000 and 4,500 barrels per day.

The company owns a solid block of 6,628 acres in the Big Muddy field, Wyoming of which 3,500 are considered absolutely proven. There is every reason for believing that this company will be able to maintain its present output and perhaps increase it for many years to come.

At present prices, the stock looks attractive.

MERIDIAN PETROLEUM

Its 8% Bonds

Q.—Are Meridian Petroleum 8s well secured and a desirable investment.—L. T. C., Portland, Maine.

A.—Meridian Petroleum 1st mortgage 8s appear to be reasonably well secured. They fall due $100,000 quarterly from Oct. 1, 1921, to Jan. 21, 1925 and $110,000 quarterly from April 1, 1925 to July 1, 1927. Net tangible assets are equivalent to not less than 5 times all outstanding bonds and must be maintained during the life of this issue. They are secured by a first mortgage on all the property of the company. For the year ended Dec. 31, 1920, the company reported net profits of $1,076,827. The company has more than 600 producing wells with a total production of about 2,000 barrels per day. These bonds appear to us to be a good business man's investment.

MIDDLE STATES OIL

Investment or Speculation?

Q.—Do you regard Middle States Oil as an investment or speculation and will you please let me know what the company is earning at the present time and also some particulars as to its production?—F. D. K.

A.—Middle States Oil Corp. for six months ended June 30, 1921, earned $2.06 per share on its 1,470,000 shares of stock outstanding. These earnings, of course, were before deducting anything for depletion. In view of the fact, however, that these earnings were made over a period when a very low price prevailed for oil they can be regarded as very satisfactory. As Middle States Oil is a large producer the recent advance in the price of crude oil has been of material benefit to this company and we hardly think that the recent advance in the price of the stock has been sufficient to discount the improved position of the company.

Middle States stock in our opinion must be regarded as speculative. A good deal of its large earnings have been from what is known as "flush production." The company has been pretty active in drilling campaigns and the new wells being constantly brought in maintained the production of the company at a high level. Production at the present time is said to be in the neighborhood of 12,800 barrels daily.

Public Utilities

Philadelphia Company

Outlook for Philadelphia Company's Securities

Industrial and Financial Prospects of One of Our Oldest Utilities

By **FREDERICK LEWIS**

PITTSBURGH as everybody knows is one of the greatest industrial centers in the world. While it is known as a steel town, a great variety of industries is located there. Philadelphia Co. controls about 90% of the public utility business of Pittsburgh and vicinity, serving a population of over 1,500,000. In view of the enormous plant investments in this city it is hardly within the bounds of possibility that there could be any important decrease in the manufacturing industries of Pittsburgh. If one can count on anything, it is safe to say that Pittsburgh is bound to grow.

Philadelphia and its subsidiaries own 400,000 acres of gas and oil rights in Pennsylvania and West Virginia, of this about 230,000 have yet to be exploited. Through its owned and controlled lines the company supplies nearly all the fuel gas consumed in the city of Pittsburgh and the towns along the Monongahela and Allegheny rivers. Over 2,000 natural gas wells are connected to its mains. The average life of a gas well is about five years, although some of the company's wells have been delivering gas for twenty years. While the company's large acreage should enable it to keep up its present production of natural gas for a good many years to come, provision is already being made for the future by the erection of artificial gas plants.

Philadelphia Companies' Activities

Lack of space prevents a comprehensive description of the various subsidiaries of Philadelphia Co. One of the most important is the Philadelphia Oil Co., whose entire common stock is owned by the former company. This company has expanded rapidly in the past few years and prospects for increased future earnings are bright. The oil properties are in Pennsylvania, West Virginia and Kentucky. There are about 150 producing wells and net earnings have in the past few years averaged around $1,000,000 per annum.

Next to Philadelphia Co.'s natural gas business the most important branch of its activities is the electrical department and there is good reason for believing that the greatest future possibilities of the company is in this branch. The Pittsburgh district is most admirably suited for the use of electrical power and the large plants in that territory use all the electrical energy that the company can supply and could easily consume as much more if the company could supply it. The most important electrical subsidiary is the Duquesne Light Co. The property of this subsidiary includes two of the largest and most modern electric power plants in the country, the Brunot Island Plant and the Colfax Power Plant. The latter plant has only recently been put into operation and its output will undoubtedly be increased from time to time, as it is admirably situated as to coal and water supply. In 1920 the electric department reported net earnings of $4,810,000, this compares with only $2,812,153 for the year ended March 31, 1918. For the year 1921 net earnings are expected to reach $5,500,000. It can be seen that this is a rapidly growing business.

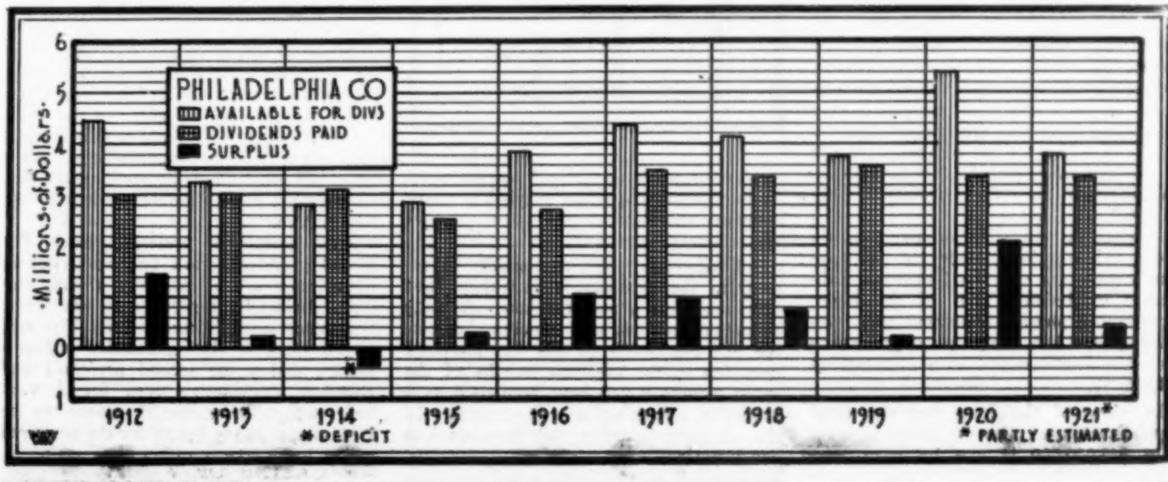
One Unprofitable Investment

One unprofitable investment of Philadelphia Co. was the Pittsburgh Railways Co. whose entire capital stock is owned by the former. This company was placed in the hands of a receiver in April, 1918. A proposed plan of reorganization formulated by the city and the company provides for a capitalization of $62,000,000 on which the company will be permitted to earn yearly $3,750,000 (6%) for a period of ten years. If this plan goes through it will bring Philadelphia Co. returns on an investment that has paid nothing for several years.

For the first half of the current year Philadelphia Co. earned its dividend requirements with a small margin to spare. Monthly figures, however, furnish no accurate basis for computing the twelve months' figures, as large earnings are made in the cold months when demand for domestic consumers is large. The company has, however, recently furnished figures covering the twelve months ended August 31, 1921, which show about 6½% earned on the stock, as compared with 10.80% earned in the year ended December 31, 1920. The twelve months ended August 31, 1921 covers a period of severe depression in the Pittsburgh district and under the circumstances would appear to be a very fair showing. The accompanying graph gives a good indication of how dividends have been covered in recent years.

As is usual with most public utilities

(*Continued on page 294.*)



Market Street Railway's Prospects

Reorganized Company on Real Values Behind Securities—Bonds Appear Attractive

MARKET Street Railway was originally formed in 1893 as a consolidation of eleven companies operating in and around San Francisco. In 1902 all of its assets were sold to the United Railroads of San Francisco. The latter company was reorganized in April of this year and the Market Street Railway now operates all of that company's properties.

Capitalization of the United Railroads of San Francisco was undoubtedly very high and it has been materially cut down under the reorganization. Funded debt was reduced from $40,000,000 to $15,000,000 and total capitalization from $82,000,000 to $47,000,000. At the present time there are $10,004,000 1st mortgage 5% bonds outstanding due Sept. 1, 1924 and $4,922,000 6% collateral trust notes, also due 1924.

Valuation of Property

Recently City Engineer O'Shaugnessy of San Francisco made a report on the valuation of the property of this company. The report was made at the request of the Board of Supervisors and may be preliminary to the adoption of an ordinance by the Board calling for a referendum on the purchase of the properties. This, if done, would be under Charter Amendment No. 30, enabling the city to acquire public utility properties and pay for same out of earnings. In November, a resolution was introduced by Supervisor Hayden at a meeting of the Board of Supervisors, urging the purchase of the City's transportation system. The resolution was referred to the Public Utilities Commission.

At present the City of San Francisco is operating a municipal line in competition with the Market Street Railway. It is not as successful from an earnings standpoint as the latter and this is one reason why the city is inclined to unify the lines.

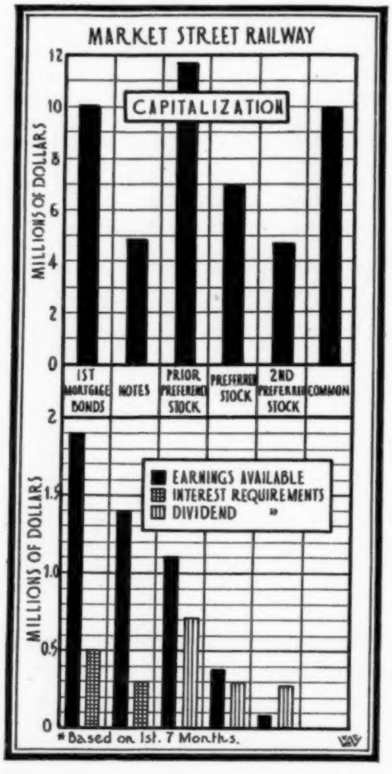
Mr. O'Shaughnessy in his report says that "In my judgment it is conservative to state that the reproduction cost, new, less depreciation of this property as of to-day, cannot be less than $35,000,000. Taking into consideration all of the elements entering into the problem, I have determined that the fair price that the city should pay for all of the properties of this company, including both physical properties and the future earnings, is $40,000,000."

Reports on valuation of the property had previously been made by the company's engineers and the California Railroad Commission. That of the latter, representing physical valuation only, was $41,424,961. The company's engineers on the same basis arrived at a valuation of $51,856,218.

In view of the fact that the total capitalization of the company is now only $47,000,000 it can be seen that there is real value behind the securities, based on valuation reports by three different groups.

Earnings on Present Capitalization

Earnings of the United Railroads of San Francisco for the year 1920 were, if applied to the present capitalization of the Market Street Railway, sufficient to pay interest charges, 6% on the prior preference stock, 6% on the preferred stock and leave a balance equal to 3% on the second preferred. Earnings for the current year have not been quite as good but, based on the results for the seven months ended Oct. 21, the company's earnings for twelve months should show the dividends on the prior preference stock and the preferred stock covered with a small margin over. The accompanying graph shows how these estimated earnings would cover interest and dividend requirements.



An important point to consider in regard to the earnings is that they have been made on a five-cent fare. A wage reduction was put into effect in September and the benefit of this was therefore only felt in the last two months of the seven months which have been used as a basis for estimating annual earnings. In the estimate, however, this is taken into consideration.

Outlook for Securities

There is $11,750,000 prior preference stock outstanding. This stock is entitled to cumulative dividends at the rate of 6% per annum and in view of the fact that the dividend is being earned with a substantial margin to spare, there appears good ground for the belief that dividends can be started in the near future, although they may not be initiated at a rate as high as 6%. One factor that might operate against a resumption of dividends is the early maturity of the company's bonds and notes, which fall due in 1924. It is believed, however, that if the company can continue to demonstrate as good an earning power as it has so far, no difficulty should be experienced in refunding these securities when they fall due. With operating costs coming down, as a result of the lower prices for materials and labor, there does not appear to be any good reason why the company should not be able to show at least, as good an earning power in the future as it is showing now. Of course if the city takes over the property the company will not have to worry about its bond maturities.

The first consolidated mortgage 5s, of which there are $10,004,000 outstanding, are secured by a mortgage on all the property rights and franchises of the company. A sinking fund provides for the retirement of $160,000 annually. $5,200,000 of bonds, in addition to above, are pledged as security under the company's $4,900,000 6% notes. These bonds are listed on the New York Stock Exchange and at the present time are selling around 82. If retired at par at maturity the yield at present prices is about 12%. In view of the fact that current earnings are at the rate of over three times the interest charges, it would appear that this issue is well worth the consideration of the investor.

Dividends?

At present prices of around 34 the prior preference stock has attractive speculative possibilities. Of course there is the possibility of the company deciding to withhold dividends in order to strengthen the financial condition of the company. While this policy might be pursued because of the early maturity of the bond issues, it is generally thought that a small dividend will be forthcoming soon. As a long pull proposition, however, this stock on the known facts should work out very well indeed.

As regards the preferred stock, the second preferred stock and the common, these issues are undoubtedly a long way from dividends, especially as the prior preference stock is cumulative. The preferred stock is also cumulative and this feature makes the second preferred and common unattractive even for a very long pull. There would appear to be some chance in the future for the preferred but it looks like a rather long wait.

Trade Tendencies

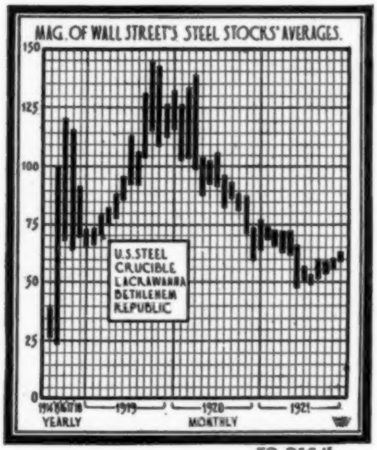
Business Conditions a Little Quieter

Year-End Adjustment Causes Temporary Slump in Trade and Industry

STEEL

New Business Declines

As indicated by the recent figures on unfilled orders, new business has shown a tendency to fall off. The mills, however, are running at a fairly satisfactory rate, being employed on the filling of accumulated orders. Independents are working at about 45% and the leading interest at probably 50%. All mills are counting on a genuine revival of business during the first quarter of the year. Under present conditions, however, competition for



TO DEC 15

the business offered is intense and prices are weak.

Railroads are not buying quite so heavily as during the past few weeks but are expected to come into the market after the first of the year. The oil interests act as a supporting factor as their orders have been large. Structural steel has quieted down but new business is in sight and improvement will soon show itself.

Light steel products are not so active and there have been instances of lower prices. Tin-plate, however, keeps the mills well occupied, most of the mills in the Pittsburgh district having sufficient orders on hand to maintain operations at around 80%.

Pig iron demand is off and no improvement is looked for until the end of the year. Revival of activity in railroad shops after the first of the year should help this market. Despite the increase in production, there has been no change in the statistical position with the output being well absorbed and stocks on hand at fairly low figures. Prices however are rather weak but should strengthen with the appearance of a heavy volume of new business.

Speaking generally, the iron and steel industries will probably not get much new business during the balance of the year but should experience considerable expansion beginning with January.

SPOT PRICES OF LEADING COMMODITIES

(See Footnote for Grades Used and Unit of Measure)

	1921 High	1921 Low	1921 Last*
Steel (1)	$43.50	$29.00	$29.50
Pig Iron (2)	30.00	18.00	19.00
Copper (3)	0.13⅝	0.11	0.13⅞
Petroleum (4)	6.10	2.25	4.00
Coal (5)	3.00	1.80	2.00
Cotton (6)	0.21⅝	0.11	0.17½
Wheat (7)	2.04	1.08	1.17
Corn (8)	0.70⅛	0.44	0.46
Hogs (9)	0.11⅛	0.06⅝	0.07⅛
Steers (10)	0.11⅛	0.08¼	0.09
Coffee (11)	0.09⅛	0.05⅝	0.09⅛
Rubber (12)	0.23	0.14	0.22
Wool (13)	0.48	0.42	0.44
Tobacco (14)	0.25	0.15	0.18
Sugar (15)	0.06⅛	0.03⅞	0.03⅞
Sugar (16)	0.08½	0.05¼	0.05¼
Paper (17)	0.06½	0.03¾	0.03¾

*December 15.

(1) Open Hearth billets, $ per ton; (2) Basic Valley, $ per ton; (3) Electrolytic, c. per pound; (4) Pennsylvania, $ per barrel; (5) Pool No. 11, $ per ton; (6) Spot, New York, c. per pound; (7) No. 2 Red, Chicago, $ per bushel; (8) No. 3 Yellow, Chicago, $ per bushel; (9) Sight, Chicago, $ per bushel; (10) Top, Heavies, Chicago, c. per lb.; (11) Rio, No. 7, Spot, c. per lb.; (12) First Latex crepe, c. per lb.; (13) Ohio, Delaine, unwashed, c. per lb.; (14) Medium Burleigh, Kentucky, — per lb.; (15) Raw, Cubas 96° Full Duty, c. per lb.; (16) Refined, c. per lb.; (17) Newsprint per carload roll, c. per lb.

THE TREND

STEEL—Volume of business declines but mills are well occupied in filling accumulated orders. Prices are rather weak under the existing competition for new business. A larger amount of buying is in prospect with the turn of the year.

METALS—Temporary slump in copper but market holds firm. Statistical position better and with the producing interests in control a higher market is looked for. Other metals dull.

COAL—Extremely depressed. Industrial and household buying at minimum and prices at lowest. Production shows large decline. Immediate outlook not promising.

OIL—Irregular conditions with gasolene consumption slightly lower. Other refined products including kerosene are in better shape but fuel and gas oil are weak.

PAPER—Slight improvement in newsprint consumption. Foreign competition not so effective on account of the inferior product. Other types of paper, except bags and wrapping paper, are dull.

CHEMICALS—Volume of business grows but prices are lower. Dyestuffs commencing to improve. Drugs slowly settling down.

SUMMARY—Improvement generally has not been maintained either with regard to volume of business or price. However, this is usual at the year-end. Preparations are made for a much larger volume of business commencing with the end of winter and the outlook is that such preparations will be justified.

COAL

Conditions Very Depressed

Probably at no time this year have coal conditions been so depressed. Demand has slumped off to a minimum and prices are practically at the bottom. Production has naturally dropped and further curtailment is at hand owing to the fact that various operators have closed their properties on account of the dearth of business.

West Virginia production has suffered particularly, owing not only to the falling off of orders but to a large number of cancellations. Conditions in the East are very unsatisfactory. New England interest is largely non-manifest with householders almost indifferent to the approaching cold weather. Other markets, both for industrial and domestic coal, are very inactive, and this situation applies throughout the country.

The depression which has been long drawn out in the coal industry shows little prospect of turning. An estimate of present conditions reveals an almost universal stagnation in these markets. Neither industrial or household buyers are interested to any extent even though prices are comparatively low.

The wage factor is still one of the predominating influences. It is noticeable in West Virginia that the non-union mines with a lower scale of wages than the union mines are those showing the biggest production.

There is little tendency to contract ahead. Large business interests are either unwilling or unable to tie up much capital in future coal requirements and this, of course, exerts an unfavorable effect on the industry.

METALS

Upward Tendency Continues

While business currently is light in comparison with the volume of several weeks ago, this is thought to be temporary and revival of copper demand is expected in the early future. The statistical position has been greatly improved and consequently the price level remains

(*Continued on page* 295)

Intimate Talks With Readers

Comments on Volume and Activity—What Odd Lots Are—Don't Dicker!

VOLUME, activity and dulness in a stock have a close relationship to its market action. When a stock is dull, it is usually either under the influence of accumulation or, as is more often the case, it is allowed to shift for itself. It must not be supposed that every stock on the list is subject to pool influence or market guidance by its sponsors.

On the other hand, a number of issues such as U. S. Steel, Reading, Baldwin, Crucible, Mexican Petroleum and others in the public eye are seldom or never left unprotected so far as price movements in the market are concerned.

The importance of looking over quotations for the day for the purpose of becoming familiar with the action of individual stocks, cannot be over-estimated. It is particularly important to note how they act during a period of activity or dulness. Profit - making opportunities nearly always occur as soon as any particular stock becomes unusually dull or unusually active. As soon as this occurs, an important movement can normally be expected up or down.

Those who hold certain stocks at a much higher level and desire to average their holdings, can often find a strong hint when their particular stock breaks out of a narrow trading area on more than usual activity. The investor who wishes to average should then note carefully whether the activity produces higher quotations or the opposite effect. It is sometimes better to wait a day or two before making a decision.

Practical Illustrations

We were consulted about Allis Chalmers held above 40 when the stock was below 30 last December. We advised averaging at 27 because the stock changed hands several days around this figure on an average volume of 5,000 daily without going lower than 26. We telegraphed to buy when the volume advanced to about 7,000 and the stock rose to 28. It continued its advance to around 37. We temporarily advised sales a while ago when the volume rose to 8,000 and the price 38¼. The latter volume compared with an average of between 2,000 and 3,000 daily. The latter volume may have been the signal for a further advance, but it would be safer to take profits temporarily. The stock declined to around 36, but again turned upward and the volume was still small, affording no great indication as to the future. However, the buyer around 27 had a further ten-point profit which could be used to mark off the price of the originally high-priced stock held around 40. The 10-point profit reduced his price to 30, and paper loss of about 14 points, to a profit of about 7 points.

General Asphalt fell to a low around 32 in the decline at the end of last year, and thereafter fluctuated violently between 35 and 42. The average volume of the big decline was around 30,000 shares. The volume fell to a daily average of about 8,000 shares. Thereafter around 37, the volume rose to 10,000 shares followed by a single day as high as 25,000 shares with a strong upward tendency. This was the signal to buy. The stock thereafter advanced persistently until it reached a high of 71. After a few days of activity above 70, a record volume for a single day was registered, sales and purchases totalling nearly 90,000 shares. This was distinctly a signal either to sell out, take profits or even to sell short if the trader was so constituted. The stock dropped to 47 within a few weeks. The conclusion to be drawn is fairly obvious.

International Paper after a decline from above 80 to below 40 became extremely dull but advanced about eight points, and its average activity was below 5,000 shares daily. Thereafter it closed strong around 47, the volume registering about 22,000 shares. The next day it advanced to around 54 and continued its strength until a high of over 64 was reached. On that occasion the volume was above 20,000. Our technical department then listed this stock as in a dangerous position on the long side. It immediately dropped to around 50. When the latter price was reached after a period of dulness, the volume registered 30,000 which to us indicated the bottom of that movement. Thereafter it again advanced at 64.

We could continue these illustrations almost indefinitely, and we earnestly advise those of our subscribers who trade actively and make a study of price movements to observe the volume in their "pet stock" very carefully.

Sizing the Market Up

As a supplement to studies in volumes of individual stocks, the market as a whole should be "sized up" as to general volume of all stocks listed, to note whether activity in particular issues is communicated to the list as a whole; and whether the activity has the effect of advancing the market averages, or the opposite. The most favorable time to buy or average individual stocks is when both the latter as well as the general market shows "activity on the up side." By taking action at such time, the investor often saves himself the danger of being hung up on a temporary move or ill-timed action on the part of the pool operating in an individual issue. Pools are not always infallible, and often have been known to plan an untimely campaign that fails to proceed because general conditions are adverse.

Many forms of "averages" are published; most of them are good and all are useful. The business man may not have time to read too many financial journals, in which case he will find the graphs in our magazine helpful.

Facts About Odd Lots

It is surprising how general the confusion is relating to the buying and selling of lots of stock, and the loss and argument due to misunderstanding of the rules on the subject.

A subscriber recently wrote us that he wished to sell 50 shares of General Asphalt at 67 or thereabouts, and although he saw quotations at that figure on two different occasions thereafter, his broker did not report a sale, and he is probably still holding his stock.

There are three things to consider, and all three deserve memorizing. It is a mistake to put in orders at the even or round figure like 70, 71 or 72, as a careful checking up shows that the minimum number of transactions occur at these points. Too many people, apparently, have "their orders in" at round figures, and the specialist in the stock books his orders in the order in which he receives them. There might be fifty people ahead of you to sell at 67.

So if you see one or a dozen sales at 67, the broker is not to blame if the specialist fails to get your stock off. Had the order been in at 66¾, no sale of stock at 67 would have been possible until your 100 shares had been sold. On the other hand, an order to sell 50 shares cannot be expected at the same price as a full lot—sometimes called a round lot, or all quantities less than 100, or for fractional lots over board lot, which consists of 100 shares as a rule.

The ⅛ or ¼ premium (some people believe it is a penalty) for selling or buying odd lots, prevails on 100; thus 199 shares is, a full lot of 100 and an add lot of 99.

In the case of U. S. Steel and most of the big leading active stocks, ⅛ is the regular premium, above or below the tape price. In the case of Mexican Petroleum ¼ point is the premium. These premiums are established by the Stock Exchange and a list can be obtained from members of the Stock Exchange on request.

If, therefore, you hope to get 85 for an odd lot of Steel, you must figure that the stock must sell at 85⅛ to let you out. If you wish to buy at 80, the stock must sell down to 79⅞ before your order can be executed. If, on the other hand, you are satisfied to buy or sell "at the market," allow for the ⅛ in stocks like Steel, by adding that fraction to the price when buying, and deducting an ⅛ when selling. A sale at 79⅞ would net you 79¾ when selling; and you would pay 80 when buying.

The reason for this is that your own

broker does not handle the transaction. He gives the order to an odd lot specialist; the latter accounts to an "odd lot house"; and the latter in turn sells to or buys from your broker. The odd lot dealer makes the ⅛ or ¼, and he in turn assumes the risk and responsibility of selling or buying anything and everything —"at an eighth or quarter away."

The balancing of the odd lot broker's books, and the way he finally adjusts his own trades, is a most complicated affair involving expense and worry. The compensation is small on each trade, but very large in volume of business and money in the aggregate.

Do Not "Dicker"

The case of our subscriber who tried to sell Asphalt at 67 and failed, brings up another interesting subject. Is it worth while for the distant investor, trader or speculator to fix a price in active stocks, at which he wishes to buy or sell, if he hopes for good results, and trusts his broker? The answer is generally "No!"

Veterans of the Street will tell you that when a stock is a sale, it is a sale at the market; and the converse case is also true. When you make up your mind to get out—do so, and do it without qualification. For example, having made up your mind that Asphalt is an undesirable stock to hold between 66 and 67, its desirability would not be improved at 67½. And, in the long run it does not pay to risk holding indefinitely for the sake of the extra half point.

In the same way, if Southern Pacific should be a desirable purchase 79-80 and your broker reports, "It is selling around 80, but I haven't seen it for half an hour," it is ridiculous to say, "Well, buy me a hundred if it goes to 79, and if they won't let me have it for that they can keep it." Such an order marks the novice for the following reason:

The intended purchaser had in mind the investment of $7,900 in 100 shares Southern Pacific, with the expectation of holding for investment or perhaps selling out around $9,000 or higher. The buyer must have judged that he was putting in his order at the "zero hour," or else he had no business to put in an order at all. If it should transpire that 79 or 78⅞ was the actual low for the move, the buyer probably wanted to have the satisfaction of bragging to his friends that he bought it at the bottom eighth—and they would not believe him, or be jealous of him anyway. The buyer or seller at the bottom and top eighth is the most hated animal in Wall Street, and he is the only person who does not realize it. To analyze our Southern Pacific trader, he was a groundhog, and would never be successful; not really knowing his own mind, and hoping that his greed for an extra ¼ point would be realized—or else out of pique, determining to let "them" or "they" keep it. The latter mysterious individuals might be you or I, because if I owned 100 Southern Pacific, and wished to sell, I might be stupid enough to let my broker know that I would not take less than 80. So, in a case of this kind, you would have two foolish people, both willing enough to do business, but neither knowing sufficient about the market or Wall Street to get down to real business.

We do not say that all orders should be market orders. It may be desirable during a reaction to try and buy cheaper, and an order to buy 1, 2, or even 10 points under the market may be in order, if the buyer knows what he is doing. Inactive stocks, preferred stocks, and wide movers sometimes do react a point or two in session, or in a couple of days. Ordinarily, however, the market order in an active stock, placed with an honest broker, should lead to no regret in after years.

Be Constructive

We have had favorable comments from subscribers with reference to our specific advices where to buy and sell stocks like U. S. Steel, Reading, Southern Pacific, etc., in a recent "talk" with you. We have always impressed upon our authors, analysts, technicians, market commentators and others that the idea back of our predecessor "The Ticker" since 1907 has been:

The yardstick by which we measure the utility of an article is, "How much money will that paragraph make for our readers?" Rather a good criterion of value, do you not think?

We are not brokers, and we do not care whether you buy or sell. We would rather have you on the constructive side of the market, buying for investment or speculation when they are low, and selling them to "they" when they are high. We have no antipathy towards the bears, much as they are generally disliked in Wall Street. So if you wish to join their ranks at any time, you will have our good wishes if you are on the right side.

Scale Plan Operators

Very many people who are neither investors nor speculators (let us call them specvestors) prefer the scale plan to all others. These people detest the stop loss order, and they have the fear of being tied up indefinitely in case they should buy without stops. Usually, they are timid and hope to buy near the bottom, not because of their innate cupidity, but with a sane regard for the future financial welfare

The writer cordially indorses a very conservative scale plan:

In the right stocks
At the right time
Under a correct plan

and we believe a few words on the subject at this time may prove helpful and informative.

As for the right stocks: the active leading issues that have a wide price range are the most desirable, provided they are not in the strictly "too volatile" class. The following are candidates: Baldwin, Reading, Studebaker, Pan American. We prefer these stocks because (1) all pay dividends; (2) comparatively smaller danger of dividends being passed altogether; (3) they have had satisfactory declines from the former point of distribution and m-a-n-i-p-u-l-a-t-i-o-n (we spell this word because it is taboo with investors, and the idea of such stock being "manipulated" is repugnant).

Further advantages are that these companies are in their respective businesses for good, and quite possibly however low they might go the investor in them has a small chance of losing out in the end.

As for the right time: the present is the right time. The man who will hesitate to commence an accumulation after a protracted bear market, and who hopes to get the exact bottom, had better accumulate War Savings Stamps or bank certificates of deposit rather than stocks.

The correct plan: ample capital or moderate—very moderate purchases: or an ample reserve to provide a 50% margin at least on all lots purchased. This last stipulation looks like denaturing speculation to the nth degree, but the writer contends that extra caution and conservatism will find its own reward in the end.

If you are in the habit of buying 100 share lots, try 25 at a time, and buy four lots every 3 to 5 points down from these levels, and then *stop*. Do not try to own the corporation by buying them all the way down because this plan has broken many a good man. If you are licked temporarily on your four lots, protest those lots with your reserve funds, rather than attempt to spread less butter on more bread.

Let us deal with Baldwin, and say why we prefer it to Republic for example. The latter may be an absolute bargain: the writer doesn't know and admits his ignorance. It does not pay a dividend, and his guess as to when dividends will come again is probably no more dependable than the reader's. The chances are, however, that it will rally and fall again, and then rally again—and so on until the steel outlook definitely improves, and the pot of gold under the rainbow (dividend resumption) is translated into definite business prospect. The situation in Baldwin is different. It has not increased its capital, has paid a conservative dividend, and equities plowed in undeniably great.

The writer hopes the reader will grasp his thoughts on the subject of the scale plan, and remember that Rothschild's advice was not to try buying at the bottom nor selling at the top. We wonder whether he used this scale plan?

How Pools Accumulate and Distribute

Pools are merely groups of men who work together through a manager in a stock market operation, the purpose of which is to realize a profit.

Pools do not always work on the long side—very often they undertake to sell a stock short and to repurchase it at a lower level. Sometimes their plans go wrong, and they are obliged to buy at a higher price, and thus take a loss instead of a profit.

Pools generally accumulate their initial holdings over a range of from two to ten points, depending upon the activity of the stock. In a stock like Mexican Petroleum, at least a five-point range, but in some markets a ten-point range would be necessary because that stock moves so erratically over a wide area. When its fluctuations are confined to a three-point range it is regarded as standing comparatively still.

A pool cannot acquire all its holdings at the same price. It endeavors to buy on weak days so that it will have the greatest advantage, for it is an old adage that "well bought is half sold."

The point we wish to make is that

(*Continued on page 298.*)

New York Stock Exchange

	Pre-War Period 1909-13 High	Pre-War Period 1909-13 Low	War Period 1914-18 High	War Period 1914-18 Low	Post-War Period 1919-20 High	Post-War Period 1919-20 Low	1921 High	1921 Low	Last Sale Dec. 15	Div'd $ per Share
RAILS:										
Atchison	125⅜	90¼	111⅛	75	104	76	91	76¼	90½	6
Do. Pfd.	106⅜	96	102⅜	75	89	72	88	75½	85¾	5
Atlantic Coast Line	148½	102¼	126	79⅞	107	82	91	77	87½	7
Baltimore & Ohio	122½	90⅝	96	38⅛	55¼	27⅝	42⅝	30⅜	35⅝	..
Do. Pfd.	96	77½	80	48¼	59⅛	33½	50⅜	47	52¼	4
Canadian Pacific	283	165	220⅛	126	170⅞	109⅝	123⅞	101	121⅛	10
Chesapeake & Ohio	92	51⅛	71	35⅝	70⅜	47	65½	46	56	4
Chicago Great Western	36⅝	1⅛	17½	6	14⅛	6⅝	9⅛	6⅝	6⅜	..
Do. Pfd.	64½	28	47½	17½	33⅝	15¼	20⅝	14	‡16⅜	..
C. M. & St. Paul	165½	96⅜	107⅛	35	52⅜	21	31	18¾	19½	..
Do. Pfd.	181	130½	145	62½	76	36⅜	46⅝	30⅜	31½	..
Chicago & Northwestern	198½	123	136⅞	85	105	60	71	60½	67½	5
Chicago R. I. & Pacific	..	..	45⅜	16	41	21½	35	22⅝	32⅜	..
Do. 7% Pfd.	..	..	94⅜	44	84⅜	64	88½	63¾	‡83⅜	7
Do. 6% Pfd.	..	..	80	35⅜	78	54	77	56½	71½	6
Cleveland C. C. & St. L.	92½	34⅞	62⅝	21	61	31⅝	52½	32	56	..
Delaware & Hudson	200	147½	159½	87	116	83¼	110½	90	106⅜	9
Delaware Lack. & W.	340	192¼	242	160	260½	165	249	93	114	6
Erie	61⅛	33½	39½	13⅝	21⅜	9½	15¼	10	10½	..
Do. 1st Pfd.	49⅞	26½	54⅜	15⅛	33	16¼	22⅜	15½	16	..
Do. 2nd Pfd.	39½	19½	45⅝	13¼	23⅜	12	15⅞	10	10⅜	..
Great Northern Pfd.	157⅞	115¼	134⅜	79¼	100⅜	65⅝	79¼	60	74⅜	7
Illinois Central	162½	102⅜	115	85⅜	104	80⅝	100½	85½	99½	7
Kansas City Southern	50¼	21⅝	35¼	13½	27¼	13	28⅞	18½	‡23½	..
Do. Pfd.	75½	56	65½	40	57	40	55	45½	‡53½	4
Lehigh Valley	121¼	62½	87½	50⅝	60⅜	39⅝	60⅜	47½	58⅜	3½
Louisville & Nashville	170	121	141⅞	103	122⅜	94	118	97	108	7
Minn. & St. Louis	*65	*12	36	6⅞	24½	8½	14⅜	6¼	6½	..
Mo. Kansas & Texas	51⅛	17½	24	3½	16⅜	2¼	3½	¾	1⅜	..
Do. Pfd.	78¼	46	66	6½	25½	8⅜	5⅜	2½	2½	..
Mo. Pacific	*77½	*21½	38½	19⅞	38⅝	11½	23¼	16	17⅞	..
Do. Pfd.	..	..	64⅞	37½	58⅝	33⅝	40½	33½	46½	..
N. Y. Central	147⅝	90⅝	114¼	62½	84¼	64¼	76	64⅛	72⅜	5
N. Y. Chicago & St. Louis	109⅝	90	90⅝	55	65	23⅜	61½	39	59	5
N. Y. N. H. & Hartford	174⅜	65⅝	89	21¼	40⅝	15⅛	23½	12	13	..
N. Y. Ont. & W.	55⅝	25½	35	17	27⅝	16	23¼	16	21⅝	2
Norfolk & Western	119½	84¼	147½	92⅝	112½	84¼	104⅞	88⅝	97⅜	7
Northern Pacific	159½	101⅜	118⅞	75	99⅝	66⅝	88¼	61¼	79	7
Pennsylvania	75⅝	53	61½	40¼	48½	37⅞	41⅛	32¼	32⅞	2
Pere Marquette	*36½	*15	38½	9½	33½	12⅜	23⅞	15¾	21	..
Pitts. & W. Va.	..	..	40⅝	17⅝	44⅜	21½	32	23	‡25	..
Reading	89⅝	59	115½	60⅝	103	64⅝	89¼	60⅜	71½	4
Do. 1st Pfd.	46⅜	41¼	46	34	61	32⅝	55	36½	‡42½	2
Do. 2nd Pfd.	58⅜	42	52	33⅝	65½	33½	57⅜	35½	44	2
St. Louis-San Francisco	*74	*13	50½	21	31⅞	10⅜	25¾	19½	21¼	..
St. Louis Southwestern	40⅝	16½	32½	11	40	10⅝	30½	19½	21⅛	..
Do. Pfd.	82⅜	47½	65⅛	28	49⅜	26¼	41	28	33	..
Southern Pacific	139½	83	110	75⅝	115⅛	83	101	67½	79⅝	6
Southern Ry.	34	18	36⅜	12½	33½	18	24⅞	17⅜	18⅜	..
Do. Pfd.	86⅝	43	85⅛	42	73½	50	60	42	46	..
Texas Pacific	40½	10¼	29½	6¼	70½	14	27½	16½	23¼	..
Union Pacific	219	137⅝	164⅜	101¼	138½	110	131⅞	111	126	10
Do. Pfd.	118½	79⅝	86	69	74⅜	61¼	74½	62¼	71¼	4
Wabash	*27⅞	*2	17½	7	13⅝	7	9	6½	6⅜	..
Do. Pfd. A	*61⅝	*6⅝	60½	30⅝	38	17	24½	18	20¼	..
Do. Pfd. B	..	..	32⅝	18	25½	12½	15⅞	12⅜	‡13	..
Western Maryland	*56	*40	28	9¼	15⅝	8⅝	11½	8½	8⅜	..
Western Pacific	..	..	25½	11	40	17	30⅞	16⅞	18½	..
Do. Pfd.	..	..	64	35	78	52½	70½	52½	‡55	6
Wheeling & Lake Erie	*12⅝	*2¼	27⅝	8	18¼	7⅝	11⅛	6½	7	..
INDUSTRIALS:										
Allied Chem.	..	..	..	..	62⅝	48¼	59½	34	57⅝	4
Do. Pfd.	..	..	..	..	92½	84⅝	102⅜	83	‡100⅜	7
Allis Chalmers	10	7⅝	49½	6	53⅝	26⅝	39½	26¼	38⅝	4
Do. Pfd.	43	40	92	32½	97	67¼	89½	87	‡89	7
Am. Agr. Chem.	63⅝	33¼	106	47⅞	113⅜	51	65½	26½	30⅝	..
Do. Pfd.	105	90	103½	89½	103	79	84	51	59⅞	..
Am. Beet Sugar	77	19⅜	108½	19	108⅜	32⅝	51	24½	28⅝	..
Am. Bosch Mag.	..	..	..	..	143⅞	45⅝	65½	29½	34½	..
Am. Can.	47⅞	6⅝	68½	19¼	68⅝	21⅝	35¼	23½	34⅝	..
Do. Pfd.	129½	62	115⅝	80	107⅝	78⅝	97	76⅜	‡93	7
Am. Car & Fdy.	76½	36⅝	98	40	148⅝	84¼	151¼	115¼	148½	12
Do. Pfd.	124⅜	107½	119½	100	119	105⅝	115½	108	‡115½	7
Am. Cotton Oil	79¼	33⅝	64	21	67½	15½	24⅜	15⅞	21½	..
Do. Pfd.	107½	91	102¼	78	93	50½	67	35½	46⅜	..
Am. Drug Syn.	..	..	..	..	15½	6⅝	8⅜	4¼	5	..
Am. Hide & L.	10	3	22½	2½	42½	5	15½	8	15⅛	..
Do. Pfd.	51⅞	15⅛	94⅞	10	142⅜	35	62⅜	40½	61½	..
Am. Ice	..	..	49	8⅝	76½	37	76⅜	42	74	6
Am. International	..	..	62⅜	12	132¼	30¼	53⅜	21¼	42	..
Am. Linseed	20	6⅝	47⅝	20	95	42	62½	17	31	..
Am. Loco.	74⅜	19	98¼	46⅝	117½	58	101	73½	99	6
Do. Pfd.	122	75	109	93	109⅜	96¼	115	98¼	‡113	7
Am. Safety Razor	..	..	..	..	22	6⅝	10	3½	4¼	..
Am. Ship & Com.	..	..	..	..	47½	7⅝	14	4½	6	..
Am. Smelt. & Ref.	105½	56⅝	122⅜	50¼	89⅝	29¼	47⅝	29⅝	46⅝	..
Do. Pfd.	116⅝	98¼	118⅜	97	109⅜	64¼	90	63¼	89	7
Am. Steel Fdys.	74½	24¼	95	44	50	26	35	18	34¼	3
Do. Pfd.	..	..	..	..	96½	79½	95¼	78	‡94	7
Am. Sugar	136⅜	99⅝	126⅜	89¼	148⅜	62½	96	47⅝	54½	..
Do. Pfd.	123½	110	123½	106	119	97⅞	107¼	67½	83½	7
Am. Sumatra Tob.	..	..	145⅜	15	130½	65	88	29½	31	..
Do. Pfd.	..	..	103	75	105	79	91	64⅜	‡66	7
Am. Tel. & Tel.	153½	101	134½	90⅝	108⅜	92⅝	119½	95⅝	117⅜	9
Am. Tobacco	*550	290	256	123	314½	104⅜	136⅜	111½	134½	12
Do. B	..	..	..	..	210	100¼	131½	110	128⅞	12
Am. Woolen	40⅝	15	60⅝	12	169½	55½	83½	57	81⅝	7
Do. Pfd.	107⅝	74	102	72½	110⅜	83⅝	103½	93	101⅜	7
Anaconda	54⅝	27½	105⅜	24¼	77⅞	50	49⅝	31⅝	40½	..
At. Gulf & W. I.	13	5	147⅝	4½	192⅜	71½	76	18	34¼	..
Do. Pfd.	32	10	73⅜	9⅝	76½	42	44½	15⅜	25	..
Baldwin Loco.	60⅝	36½	154½	26⅝	156¼	64⅞	98½	62½	96⅝	7
Do. Pfd.	107½	100½	114	90	111⅞	92	105	95	104	7
Bethle. Steel B.	*51⅝	*18⅜	155½	59⅝	112	48⅞	65	41½	57½	5
Do. 7% Pfd.	80	47	186	68	108	90	93¼	87	91¼	7
Do. 8% Pfd.	..	..	110½	93¼	116	99¼	107½	93⅜	105¼	8
Calif. Packing	..	..	50	50	87½	48¼	74	53⅜	70½	6
Calif. Petro.	72¼	16	42⅝	8	56⅝	15⅜	49⅝	25	48	..

Active Stocks' Price Range

	Pre-War Period 1909-13 High	Low	War Period 1914-18 High	Low	Post-War Period 1919-20 High	Low	1921 High	Low	Last Sale Dec. 15	Div'd $ per Share
INDUSTRIALS—Continued:										
Calif. Petro. Pfd.	95½	45	81	29½	86⅝	63	86¾	68½	‡86	7
Central Leather	51⅞	16½	128	25⅞	116½	30¼	43¼	22½	31⅞	..
Do. Pfd.	111	80	117½	94⅝	114	60¼	96	57½	65¼	..
Cerro de Pasco	..	..	55	25	67½	24¼	36½	23	36¼	..
Chandler Mot.	..	..	109⅞	56	141¼	59⅜	86	38¼	50½	6
Chile Copper	..	..	39¼	11¼	29⅜	7⅛	16⅞	9	16½	..
Chino Copper	50⅝	6	74	31⅝	50½	16⅝	29½	19½	29⅜	..
Coca Cola	..	..	..	..	43⅝	18	43¼	19	40	4
Colum. Gas & E.	..	..	54½	14¼	69	29¼	67⅞	52	67½	6
Columbia Graph.	..	..	*166	*97	75¼	9	12⅝	2⅝	3⅝	..
Consol. Cigar	..	..	..	..	80	51½	61	13½	18	..
Consol. Gas	165½	114½	150½	112½	106⅝	71⅜	95	77½	93	7
Corn Prod.	26½	7⅝	60⅝	7	105¼	46	98	59	97	6
Do. Pfd.	93½	61	112½	88½	109¼	97	109½	96	‡109	7
Crucible Steel	19⅝	6½	109⅞	11¼	278½	52¼	107½	49	65	4
Cuba Cane Sugar	..	..	76⅝	24⅝	59⅝	16½	26	5⅝	7	..
Cuban Am. Sugar	*58	*33	*278	*38	*605	21½	33½	10⅞	13⅝	..
Fisk Rubber	..	..	..	..	55	10	19⅝	8⅜	13	..
Freeport Tex.	..	..	70½	25⅝	64⅝	12½	20½	9½	15⅝	..
Gen'l Asphalt	42⅝	15½	39⅝	14½	160	32½	78⅞	39½	68⅝	..
Gen'l Electric	188½	129⅝	187½	118	176	116½	143¾	109½	142	8
Gen'l Motors	*51⅞	*25	*850	*74½	42	12⅝	16¼	9⅝	11	1
Do. 6% Pfd.	..	..	99⅝	72⅝	95	64½	72	63	‡72	6
Do. 6% Deb.	..	..	..	..	94⅝	58⅝	73	60	72	6
Do. 7% Deb.	..	..	..	..	94	60	84	69	82¾	7
Goodrich	86½	15⅝	80¼	19⅝	93⅝	27	44½	26⅝	37⅝	..
Do. Pfd.	109⅜	78⅝	116⅝	79⅞	109½	70	85¾	62½	‡85¼	7
Gt. Nor. Ore	88½	25½	50⅝	22½	52⅝	24⅝	35⅝	25⅝	31⅝	4
Haskell-Barker	..	..	54½	27½	78¼	40	82	50½	79	4
Houston Oil	25½	8¼	86	10	116½	55¼	86	40½	81⅝	..
Hupp Motors	..	..	11⅝	2⅜	28¼	4⅝	16¾	10½	‡11⅝	1
Inspiration	21⅝	13⅞	74⅝	14½	68⅞	25	41⅞	29⅝	41⅞	..
Inter. Mer. Mar.	9	2½	50⅝	⅝	67⅝	10¼	17¼	7⅛	14⅜	..
Do. Pfd.	27⅝	12½	126⅝	3	126½	44	67⅞	36	65	6
Inter. Nickel	*227½	*135	57½	24½	33⅝	11½	17	11½	12⅝	..
Inter. Paper	19⅝	6½	75½	9½	91⅝	30⅛	73⅜	33⅝	55⅜	..
Invincible Oil	..	..	..	..	47½	19	26	5½	11⅞	..
Island Oil	..	..	..	..	7⅛	4	4⅝	2	2⅝	..
Kelly Springfield	..	..	85½	36⅞	164	25½	54⅞	32½	44	..
Do. Pfd.	..	..	101	72	110¼	75	94	70¼	‡92	8
Kennecott	..	..	64¼	25	42	14⅝	27⅞	16	27⅝	..
Keystone Tire	..	..	46⅝	11	126⅝	13½	17⅞	8¼	14½	..
Lackawanna Steel	55½	28	107	26½	107⅝	45	58½	32	47	..
Loews, Inc.	..	..	..	..	38⅝	14¼	21½	10	14	..
Loft, Inc.	..	..	..	..	28	9⅝	12⅞	7⅝	10⅝	1
Mexican Pet.	90½	41⅝	129⅝	46½	264	148	167¼	84½	119⅝	12
Miami Copper	30½	12⅝	49⅝	16½	32⅝	14½	27⅞	15⅝	27⅝	2
Middle States Oil	..	..	..	..	71⅞	10¼	16½	10	15	1.20
Midvale Steel	..	..	98½	39⅝	62½	28⅝	33½	22	28⅝	..
Nat'l Lead	94	42½	74⅝	44	94½	63½	86	67⅝	85½	6
Nevada Copper	30	13	34½	10¼	21⅞	8	15⅝	9	15	..
N. Y. Air Brake	98	45	186	55⅝	145⅝	66	89	47½	60	..
N. Y. Dock	40¼	8	27	9⅛	79⅝	16¼	39	20⅝	‡33	2½
North American	*87⅝	*60	*81	*38⅝	*67	*67	46	32¼	43⅝	3
Do. Pfd.	..	..	..	..	..	..	41½	31⅞	39⅝	3
Pacific Oil	..	..	..	..	41⅞	35	47½	27½	48⅝	3
Pan Amer. Pet.	..	..	70⅝	35	140½	67	79⅝	38½	56⅝	6
Do. B	..	..	..	..	111⅝	64½	71⅜	34½	51¼	6
Philadelphia Co.	59½	37	48⅝	21½	43	30	35½	26½	33	3
Phillips Pet.	..	..	..	..	44½	26⅝	33⅝	16	33	2
Pierce Arrow	..	..	65	25	90	15	42¼	9½	14½	..
Do. Pfd.	..	..	109	83	111	39	88	21	33½	..
Pittsburgh Coal	*29⅝	*10	58⅝	37½	74⅝	45	66	52	‡65	5
Pressed Steel Car	56	18½	88¼	17¼	113⅝	59	96	48	65⅝	..
Do. Pfd.	112	88½	109½	69	106	90¼	104	83	‡90	7
Punta Aleg. Sug.	..	..	51	29	120	40	51½	24⅝	29	..
Pure Oil	..	..	148½	31⅞	61⅞	29⅝	40⅝	21½	39½	2
Ry. Steel Spg.	54½	22¼	78½	19	107⅝	68½	94¼	67	94	8
Do. Pfd.	111⅝	90¼	105½	75	112	92½	100	98	‡106	7
Ray Cons. Cop.	27⅞	7½	37	15	27⅛	10	16	11	15⅝	..
Replogle Steel	..	..	..	..	93½	30	30½	18	28	..
Republic I. & S.	49½	15⅝	96	18	145	55⅝	73¼	41½	54½	..
Do. Pfd.	111¼	64½	112⅝	72	106⅝	84	96¼	75¼	85	7
Republic Motors	..	..	77	31	74½	16½	24½	5	8½	..
Royal Dutch N. Y.	..	..	86	56	123⅝	49½	69⅞	40½	51⅝	5.20
Shell T. & T.	..	..	..	..	90½	33⅜	49	30⅞	39	.74
Sinclair Con. Oil	..	..	67½	25¼	64½	20	28⅝	16½	23	..
Sloss Shef. Steel	94⅝	23	93¼	19⅝	89	43	65	32⅝	30	..
Stand. Oil N. J.	*448	*322	*800	*355	218	142½	192¼	124½	189⅝	5
Do. Pfd.	..	..	..	..	113⅝	100⅜	113⅜	105½	113⅜	7
Stromberg Carb.	..	..	45¼	21	118½	22½	46	25¼	33⅜	..
Studebaker	49½	15⅝	195	30	151	37⅝	93¼	43⅝	81⅝	7
Do. Pfd.	98½	64½	119⅝	70	104½	76	103⅜	88	103⅜	7
Superior Steel	..	..	96	30¼	60	32	48	26	29	..
Tenn. Cop. & Chem.	..	..	21	11	17½	6½	11	6⅝	10½	..
Texas Co.	144	74½	243	112	57⅝	40	47⅝	29	47½	3
Tex. Pac. Coal & O.	..	..	..	..	195	22	36⅝	15⅝	20½	1
Tobacco Prod.	145	100	82⅝	25	115	46	72	45	63⅝	6
Transc'al O.	..	..	..	..	62⅝	5⅝	13	6	11½	..
United Fruit	208½	126½	173	105	224⅞	157	207	95⅝	127⅞	8
Un. Retail Stores	..	..	..	..	119⅝	45⅝	62¼	46⅝	51⅞	6
U. S. Food Prod.	41⅝	9⅝	64⅝	8½	91⅝	15	27¼	8½	11	..
U. S. Ind. Alco.	57½	24	171½	15	167	56½	74½	35¼	40	..
U. S. Rubber	60½	27	80¼	44	143⅝	53	79¾	40½	56¼	..
Do. Pfd.	123½	98	115½	91	119½	95½	103⅞	74	101	8
U. S. Smelt. & R.	59	30⅝	81½	20	78½	29½	39⅜	26	38½	..
U. S. Steel	94⅝	41¼	136⅝	38	115½	76½	86½	70¼	84⅝	5
Do. Pfd.	131	102½	122	102	117½	104½	114½	105	113	7
Utah Copper	67½	38	130	48½	97½	44½	66⅝	41½	65⅝	2
Vanadium	..	..	..	..	97	28½	41	25½	‡32¼	..
Va.-Caro. Ch.	70⅝	22	60¼	15	92½	24⅜	42½	20⅜	29	..
Do. Pfd.	129¼	93	114½	80	115⅞	58⅝	102⅜	57⅝	70	..
Western Union	86¼	56	105½	53⅝	92½	80½	94	76	‡91½	7
Westinghouse Mfg.	65	24⅝	74⅝	32	59⅝	40	51½	38⅞	51	4
White Motors	..	..	60	30	86	30½	44	29¼	40⅝	4
Willys Overl'd	*75	*50	*325	15	40⅝	5½	10½	4⅝	6⅝	..
Wilson & Co.	..	..	84½	42	104⅝	34⅝	47	27½	‡28	..
Woolworth	117⅞	76½	151	61½	136⅝	100	130¼	105	130	8

*Old stock. ‡Bid price given where no sales made.

ANSWERS TO INQUIRIES

(Continued from page 259.)

appears to have fairly good possibilities. Should you desire to switch into a stock with less risk involved, would suggest a switch into Westinghouse Electric paying $4 per share per annum and selling around 50.

Pure Oil is in good financial condition and has fair possibilities. The stock has advanced very substantially in the past few months, however, and as you can sell out now without taking a loss, it would appear to us advisable to do so and put the money into some security that is less speculative. A suggestion is Packard Motor 8% bond selling around par. The working capital of this company alone is more than twice than the amount of bonds outstanding.

WRIGHT AERONAUTICAL

Its Prospects

Q.—I would appreciate any information you may give me concerning the Wright Aeronautical Corporation's financial condition, business prospects and outlook for appreciation in value of the common stock.—N H. J., Pasadena, Cal.

A.—Wright Aeronautical sells around 9 and pays $1 a share annually. It is listed on the New York Stock Exchange and the yield, if the dividend can be maintained, would be a little over 11%. The company is in a very good financial position as at last report cash and receivables totalled around $1,000,000 and total assets were a little under $6,000,000. The company owes very little and its debts are quite nominal. At the last report the company had something like $3,000,000 of new business on its books, about double that of a year ago and is well supplied with cash and working capital. It is working very largely on Government contracts at present for 300 motors. Last year the company produced nearly $1,500,000 of aeroplane motors and parts and earned $1.88 a share on its 224,390 shares of no par value.

Of course, the aeroplane industry has not yet reached a commercial basis and its future is rather dependent upon Government requirements. If the industry could emerge into the commercial stage this company would be one of the first to benefit. While the stock is rather speculative we believe that it has very bright prospects but as it is impossible to make a definite forecast as to the future of its business naturally anybody who purchases this stock and holds it does it with his eyes open. If the aeroplane should develop, a purchase at present prices should prove very profitable.

SWIFT INTERNATIONAL

Some Information

Q.—Please let me have what information you can in regard to Swift International.—B. M., New York.

A.—Swift International was incorporated in 1918 under laws of the Argentine Republic to operate the South American and Australian business of Swift & Co. The company has plants in Argentine, Uruguay, Brazil, Paraguay and Australia. Capitalization consists of $22,500,000, par value $15. The stock was offered to shareholders of Swift & Co. August 31, 1918 in exchange for 15% of their Swift stock, par for par. For the year ended Dec. 31, 1920, the company earned $2.76 a share on its stock as against $5.29 in the previous year. Swift management has always been regarded as highly efficient and we believe the stock should be entitled to consideration as a long pull speculation.

A FEW SUGGESTIONS

Common and Preferred Stocks

Q.—Would like a few suggestions from you on preferred and common stocks whose dividends appear to be reasonably secure under present conditions and which appear to have good prospects of going to higher prices if held for a long pull.—B. J. F., Jonesburg, Mo.

A.—In our opinion there are some excellent opportunities in preferred stocks at the present time. The following give a good return on the money and appear to be in a strong position.

	Price
California Petroleum, 7% Pfd.	84
General Motors, 6% Pfd.	73
B. F. Goodrich, 7% Pfd.	84
Bethlehem Steel, 7% Pfd.	81
Kelly Springfield, 8% Pfd.	90

The following common stocks appear to be in a strong position and the dividend is reasonably secure.

Atchison, 6%	89
Southern Pacific 6%	79
Westinghouse Electric, $4	49
Cosden, $2.50	34

CONSOLIDATED CIGAR

What Should Holder Do?

Q.—What present action do you advise for one who holds Consolidated Cigar at much higher prices.—A. J. A., Fall River, Mass.

A.—Consolidated Cigar Corporation is controlled by the American Sumatra Tobacco Company and we are rather inclined to the opinion that its recent weakness has been due in part to the weakness of American Sumatra Tobacco. In the current year however, earnings of the company fell off materially as the cigar business is rather stagnant. As of December 31, 1920, working capital of the company was $4,890,000, inventories were rather high totaling $7,453,893, being carried on the balance sheet at cost. It is likely that the company will have a large sum to write off for inventory depreciation in the current year. Because of the large inventory the company's floating debt of December 31, 1920, was $4,830,000. The company does not publish any statement of current earnings but in June it was said that the output was about 75% of capacity.

The company has no bonded debt. Preferred stock is $4,000,000 and common stock $4,140,000. There is not much asset value behind the common stock but in the past the company has shown a fair earning power and we would hesitate to suggest that you sell out at present prices. The stock is highly speculative however, and we would not favor purchasing any more.

PENN POWER & LIGHT

As Long-Time Investment

Q.—Will you kindly give me your opinion as to the safety for a long time investment on Pennsylvania Power & Light 1st and refunding bonds due 1951.—F. H. M., Evansville, Ind.

A.—Penn Power & Light Co., for the year ending June 30, 1921, the company's net income was $2,916,597 as against fixed charges of $1,194,414. This shows interest charges more than twice earned and in the previous year they were earned about two and one-half time. The Penn Power & Light Co., operates in an extensive territory on Pennsylvania including one of the most active, prosperous and well populated districts of the state. In view of the fact that the outlook for public utilities generally is favorable due to the decrease in operating costs, this company appears to us to have good possibilities and while the bonds are not gilt-edge, they look to us like an attractive business man's investment.

AMERICAN CAR & FOUNDRY

Has Had Large Advance

Q.—What is your opinion of American Car & Foundry common stock at present prices?—C. A. H., New York.

A.—American Car Foundry Co. is generally regarded as one of the best managed industrial corporations in the United States. It has an excellent record over a long period of years and has built up a very strong financial condition. As of April 30, 1921, working capital was $37,500,000, as compared with the capitalization of $30,000,000 preferred and $30,000,000 common. For the year ended April 30, 1921, 21.15% was earned on the common stock as against 27.6% in 1920 and 32.2% in 1919. Recently the business of this company has picked up and early in November the Binghamton plant resumed operations on full time. This stock has had a rather large advance, however, and while it may go higher we would be inclined to await a reaction before purchasing.

INTERNATIONAL NICKEL

Q.—The writer is a holder of 200 shares of International Nickel common stock. This stock is acting so peculiarly in every way, in fact going against the market that I am uncertain what to do. Is there anything wrong with the company?—M. N F., Philadelphia, Pa.

A.—International Nickel appears to us to be in about the same boat as the copper companies. The supply of nickel on hand became too large just as it did in the case of copper and the company had to reduce operations to about twenty per cent of capacity. There appears to be nothing fundamentally wrong, however. Nickel is being used for as many purposes as it ever was in normal times and sooner or later a bigger demand is bound to make its appearance. When this occurs we see no reason why this company should not be able to make good profits.

For the six months ended September 30th, 1921, the company reported a deficit of $428,810, but this was after deducting $380,397 for depreciation and mining exhaustion. For the year ended March 31, 1921, the company reported a surplus after preferred dividend of $1,484,944. In other words this company has not taken anything like the losses that some of the copper companies have shown. In the past its dividend policy has been conservative and as a result it is in strong financial condition with a working capital of $13,100,000. The company has a new plant at Huntington, W. Va., which will shortly make monel metal. This should gradually increase the profits of the company. The mining property of the company is extensive containing more than 20,000,000 tons of ore which is sufficient to supply the company's requirements for a great many years.

The market action of the stock has not been very encouraging but we can see nothing wrong in the situation and regard it favorably for the long pull.

AMERICAN TOBACCO

The 1921 Report

Q.—Is American Tobacco expected to have a good report for 1921?—O. E. F., New York.

A.—American Tobacco for the year ended Dec. 31, 1920, earned $13.38 a share on its combined common A and B stock. It is expected that this company will close the largest year in its history this year. Sales approximate $160,000,000 compared with $143,000,000 in 1920. It is expected that close to $18 per share will be earned on the common stock. Inventories Oct. 1 were $10,000,000 below the corresponding date of 1920. This company is in very strong financial condition, and it is stated that its floating debt at the present time is practically nil.

The Mexican Oil Outlook

Harry F. Sinclair Discusses the Future

Speaking before the second annual meeting of the American Petroleum Institute, Harry F. Sinclair, chairman of Sinclair Consolidated Oil, said in part:

There has never been a time when the American oil industry failed to provide enough petroleum to meet actual requirements, but times are changing. If we are to maintain this enviable record, several things are needed.

First, we must have an even greater co-operation between oil company managers and employes, with steadily improving efficiency in operation.

Second, we must say to the American public: "American oil men do not seek success by cutting the other fellow's throat," and we must make that statement stick by adopting every legal means of co-operation, so that the American petroleum industry will be conducted with the least possible economic loss and to the greatest good of the American people.

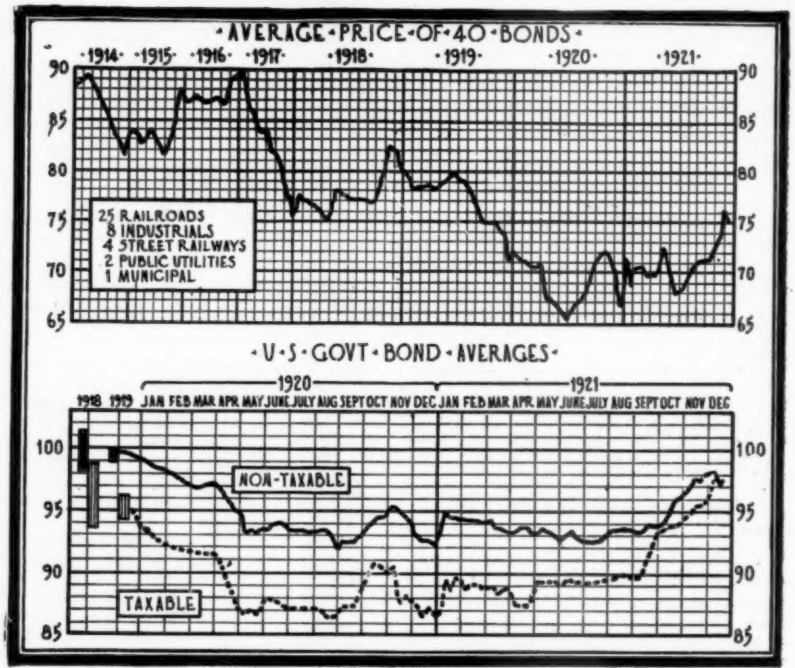
Third, American oil companies must work together in obtaining a firmer foothold in foreign fields; they must follow a policy of mutual helpfulness in developing foreign sources of supply; they must take effective means of assuring to their own country an adequate share of the world's supply not merely for a few years, but for all time.

Fourth, the American Government must back up the oil men of America in every legitimate effort to bring about this lasting assurance, and,

Fifth, the American people must realize that this co-operative effort on the part of their Government, of oil corporations and of oil men is vital to their security and prosperity. They must realize that it is to their interest, individually and nationally, to discourage every form of petroleum waste and to encourage every means of securing for themselves the full service value of every drop of American oil. And in their own interest they should remember that low prices for petroleum products place a premium upon petroleum waste.

THE BOND MARKET

(*Continued from page* 241)



To Dec 15.

Current Bond Offerings

NOTWITHSTANDING that the market for old bonds has temporarily quieted down, investment interest in new bond offerings has not been abated. Firms particularly interested in new bond offerings report that public interest in such securities continues at a high pitch and that from present indications, it is likely that all high-grade offerings will continue to be quickly absorbed. For this, no doubt, the excellent tone of the bond market during the past few months has been largely responsible.

An interesting feature is that municipal and State issues are being sold to the public at a yield basis largely in conformity with money rates. The decline in interest rates has found immediate reflection in the return offered by the new high-grade securities. On the other hand, both coupon and yield rates on industrial bonds continue to offer a high return, though it is noticeable that an 8% coupon rate is no longer existent and that the average coupon rate of good industrial issues is 7% compared with an average rate of 8% a year ago. Generally speaking, however, industrial issues have not made so much progress with regard to reflecting changed money conditions as most municipal and State issues.

NEW BOND OFFERINGS.

	Amount	Offered Yield %
Com'nwealth of Pennsylvania 4¾s	$11,200,000	4.75
City of Rochester 4⅛s	6,891,000	4.10
State of N. C. 5s.....	2,800,000	4.70
State of Calif. 4-4½s.	2,600,000	4.40
Oregon Short Line 5s.	16,424,000	5.41
Cuba Railroad 7½s...	4,000,000	7.51
Public Service N. J. 7s	10,000,000	7.10
Tobacco Products 7s..	4,500,000	7.00
Warner Sugar 7s	6,000,000	7.35
So. Porto Rico Sug. 7s	6,000,000	7.40
National Acme	5,000,000	7.75

Keen interest has developed in "municipals." Owing to the strong desire for such issues on the part of many conservative investors. This was illustrated in the case of the $55,000,000 issue of New York City corporate gold stock for which the successful bidder was obliged to bid a record high price of 103.407. The late Treasury offering of $200,000,000 4¼% notes was also largely over-subscribed. The successful syndicate bidding for City of Rochester 4⅛s had to pay a record high price. All State and municipal issues of which there were a comparatively great number were quickly absorbed by the public. Yields offered varied from 4.10 to 4.75%.

The outlook for next year is for increasing activity in the new bond department. A number of callable issues will probably be retired making way for new preferred issues. Refunding on a downward scale is likely to mark the investment market of 1922. This would be a logical step in view of the lower money market and ultimately this would redound to the benefit of common shareholders who have been affected by the extraordinarily large coupon rates attached to new issues which their companies were forced

to put out last year and the year before owing to the stringent conditions then obtaining in the money market.

Owing to the large prominence given the remarkable bond market and to the wave of thrift which has spread over the country, the success of the newer issues has been phenomenal. There will be many opportunities for investors in 1922, in their way probably quite as good as those now being presented.

THE OUTLOOK FOR MONEY RATES AND VOLUME OF TRADE

(*Continued from page* 221)

expected has prevented the late Autumn trade from assuming the proportions that had been foreseen, but this condition is sporadic and far from universal. There is, therefore, a distinctly hopeful condition in the distributive branches of business.

Activity of credit shows that the disposition to hold back and refrain from purchasing has been greatly lessened due to the more stable condition of prices and the fact already stated that conditions of employment have broadened. For the opening of the year, there seems to be good reason to expect an upward movement in demand culminating in a satisfactory Spring trade with corresponding activity in all lines of business that are dependent upon consumptive power.

Business and Taxation

Relief from taxation, which had been so earnestly hoped at the opening of 1921, has thus far been attained only in a very slight degree, if at all, but the policy of President Harding as outlined in his message at the opening of Congress, affords some hope of another effort at the improvement of Federal tax methods. Decided progress has at all events been made in rectifying the budget practice of the United States, and this promises greater economy in Governmental expenditure.

The Government is at least moving toward a retirement from business undertakings and is practically now out of the railroad experiment. When it will succeed in freeing itself of the consequences of its shipping enterprise is still to be ascertained, but the adoption of a policy looking in that direction is promised. **Altogether, therefore, the outlook for 1922 in the matter of Government retirement from business, is favorable, and it may be reasonably expected that, in this respect, still further progress will be made within the coming months.**

The importance of a reduction of Government outlays and a limitation of Government extravagance as well as of public interference with private enterprise can hardly be over-estimated in its bearing upon individual prosperity. In some ways, this phase of the industrial financial situation may be regarded as more important than any other, and the outlook for better things in that regard is correspondingly important.

UNLISTED UTILITY BOND INDEX

GAS AND ELECTRIC COMPANIES

	Offered	Yield
Bronx Gas & Electric Co. First 5s, 1960	75	6.85%
Buffalo General Electric First 5s, 1939	90	6.00
Canton Electric Co. First 5s, 1937	85	6.55
Cleveland Electric Ill. Co. 5s, 1939	94	5.55
Cleveland Electric Ill. Co. 7s, 1935	106	6.35
Denver Gas & Electric Co. First 5s, 1949	88	5.85
Duquesne Light Co., Pittsburgh, 7½s, 1936	106	6.85
Evansville Gas & Electric Co. First 5s, 1932	87	6.65
Kansas Electric Utility First 5s, 1925	84	9.95
Kansas Gas & Electric 5s, 1922	98½	6.60
Indianapolis Gas Company 5s, 1952	84	7.10
Los Angeles Gas & Electric Gen. 7s, 1931	99½	7.05
Louisville Gas & Electric Ref. 7s, 1923	100	6.55
Nevada-Cal. Electric First 6s, 1946	94	6.45
Oklahoma Gas & Electric Co. First & Ref. 7½s, 1941	101	7.40
Oklahoma Gas & Electric Co. First Mtge. 5s, 1929	85	7.55
Peoria Gas Electric 5s, 1923	95	[illegible].70
Rochester Gas & Electric Corp., Series B 7s, 1946	104	6.65
San Diego Cons. Gas & Electric First Mtge. 5s, 1939	100	5.00
San Diego Cons. Gas & Electric First Mtge. Ref. 6s, 1939	95	6.45
Standard Gas & Electric Conv. S. F. 6s, 1926	95	7.20
Standard Gas & Electric Secured 7½s, 1941	98½	7.65
Syracuse Gas Co. First 5s, 1946	85	6.15
Twin-State Gas & Electric Ref. 5s, 1953	77	6.75

TRACTION COMPANIES

Arkansas Valley Ry. Light & Power First & Ref. 7½s, 1931	100	7.50%
American Light & Traction Notes 5s, 1925	98	5.55
Bloomington, Dec. & Champ. Ry. Co. First 5s, 1940	67	8.55
Danville, Champ. & Decatur 5s, 1939	70	7.80
Georgia Ry. & Power 5s, 1954	82	6.30
Kentucky Traction & Terminal 5s, 1951	67	7.85
Knoxville Ry. & Light 5s, 1946	72	7.45
Milwaukee Light, Heat & Traction 5s, 1929	93	6.15
Milwaukee Elec. Ry. & Light 7s, 1923	100	7.00
Milwaukee Elec. Ry. & Light 20-Year 7½s, 1941	103	7.25
Monongahela Val. Trac. Co. Gen. Mtge. 7s, 1923	100	7.00
Memphis St. Ry. 5s, 1945	67	8.15
Northern Ohio Trac. & Light 6s, 1926	76	12.60
Northern Ohio Trac. & Light 6-Year Sec. 7s, 1926	100	7.00
Nashville Ry. & Light 5s, 1953	76	6.85
Portland Ry. P. & L. First Lien & Ref. Ser. "A" 7½s, 1946	100	7.50
Topeka Ry. & Light Ref. 5s, 1933	65	10.10
Toledo Trac. Lt. & P. Co. First Lien 7s, 1921	100	7.00
Tri-City Ry. & Light 5s, 1930	86	7.15
United Light & Rys. Ref. 5s, 1932	83	7.25
United Light & Rys. Notes 8s, 1930	100	8.00

POWER COMPANIES

Adirondack P. & Lt. Corp. First & Ref. Gold 6s, 1950	97½	6.20%
Adirondack Elec. Power Co. First 5s, 1962	90	5.65
Alabama Power Co. First 5s, 1946	90	5.75
Appalachian Power Co. First 5s, 1941	84	6.45
Consumers Power Co. (Mich.) 5s, 1936	92	5.80
Electric Dev. of Ontario Co. 5s, 1933	92	5.95
Great Western Power Co. 5s, 1946	89	5.85
Hydraulic Power Co. First & Imp. 5s, 1951	93	5.45
Idaho Power Co. 5s, 1947	90	5.75
Kansas City Power & Light 8s, 1940	107	5.40
Kansas City Power & Light First 5s, 1944	85	6.25
Laurentide Power Co. First 5s, 1946	90	5.75
Madison River Power Co. First 5s, 1935	93	5.75
Mississippi River Power Co. First 5s, 1951	89	5.75
Niagara Falls Power Co. First & Cons. Mtge. 6s, 1950	101	5.90
Ohio Power First & Ref. 7s, 1951	102	6.85
Penn. Ohio Power & Light Notes 8s, 1936	99	8.10
Potomac Electric Power Gen. 6s, 1923	99	6.55
Puget Sound Power Co. First 5s, 1933	90	6.15
Salmon River Power First 5s, 1952	87	5.90
Shawinigan Water & Power Co. First 5s, 1934	96	5.45
Southern Sierra Power Co. First 6s, 1936	94	6.65
S. W. Power & Light First 5s, 1943	90	5.80
West Penn. Power First 7s, 1946	103	6.75

TELEPHONE AND TELEGRAPH COMPANIES

American Tel. & Tel. 3-Year 6s, 1922	100⅛	5.85%
American Tel. & Tel. 5-Year 6s, 1924	100	6.00
Bell Tel. of Canada First 5s, 1925	87¾	8.70
Bell Tel. of Pa. First Ref. 7s, 1945	[illegible]½	6.30
Chesapeake & Potomac Tel. Co. Va. First 5s, 1943	89	5.80
Home Tel. & Tel. Spokane First 5s, 1936	90	6.05
Western Tel. & Tel. Coll. Trust 5s, 1932	95	5.65

Unlisted Utility Bonds

An Interesting Issue Analyzed

By James E. Halsted

Sometimes opportunities are offered to buy bonds which underlie other bonds and which give the same or nearly the same yield as the bonds which they underlie. The Cuban Telephone Co. 1st mortgage 5% bond of 1951 now presents that opportunity.

The 1st mortgage 5% bonds of 1951 were originally sold in London and are in pounds but are payable in U. S. coin, at the fixed rate of exchange of $4.8666.

These bonds are a first mortgage on the property of the company and underlie the $4,000,000 1st lien and refunding 7½% bonds of 1941. The bonds, note and capital stock of the Havana Subway and Havana Telephone Company have been deposited with the trustee as further security for the 1st mortgage 5% bond holders.

There are $4,596,372 of the 1st mortgage 5% bonds pledged under the 1st lien and refunding 7½% bonds and they supply about 77% of the amount of interest required by the 7½% bonds. However, this percentage will be reduced in proportion as additional 1st lien and refunding 7½% bonds are issued and would only be about 6% if the total $50,000,000 authorized bonds were issued.

As just stated $46,000,000 additional 1st lien and refunding 7½% bonds can be issued, but the 1st mortgage 5s is a closed mortgage and no additional bonds can be issued. It is, of course, always advantageous to own a closed mortgage bond.

Part of the unissued 1st lien and refunding 7½% bonds can be issued for the retirement of the 1st 5s, and it is quite likely that this may be done so that the 1st lien and refunding 7½s might be a first mortgage. There is also provided a sinking fund of 1% per annum for the retirement of the 1st 5s.

These provisions should assist in maintaining the market value of the 1st 5% bonds. The 1st mortgage 5% bonds mature in 1951 or 10 years after the 1st lien and refunding 7½% bond, and at this time everybody is attempting to secure long term bonds and thus be able to get the benefit of the prevailing high interest rates during a time when money is cheaper.

The 1st mortgage 5% bonds had a conversion privilege into common stock of the company which has paid dividends at the rate of 8% for the last three and a half years. This privilege has expired according to the terms of the bond, but it is understood that these bonds can still be exchanged on the original basis of $125 of bonds for $100 of stock on paying 8%. Based on a price of $75 the stock would cost about $94 per share, which would give a return of 8½% on the money.

From the above survey it appears that the 1st mortgage 5% bonds of 1951 are in a much stronger investment position that the 1st lien and refunding 7½% bonds of 1941.

The 1st 5% bonds can be bought at from 73 to 75 at which price they give a yield to maturity of about 7⅛%, and at the same time the issue which they underlie, the 1st lien and refunding 7½% bond, is selling at 103 or with a 7⅛% yield.

FOREIGN TRADE AND SECURITIES

(Continued from page 233)

process of funding into long term securities before we can feel that the international balance sheet is clean, and that a basis has been reached for the re-establishment of normal trade upon a footing which would at least hold out the prospect of maintaining a fairly stable rate of exchange at such ratio of currency values as might be determined upon.

Stated in another way, this seems to mean that if we were today endeavoring to set ourselves square with the world at large in order to make a fresh start toward normal foreign trade relations, it would be essential to induce investors to purchase and pay for about 3 billion dollars of securities (pay for them, that is to say, in the sense of accepting these securities in lieu of the technically demand claims which we now hold against foreigners). This estimate furnishes an idea of the magnitude of the exchange problem by which the United States is faced at present.

Distribution Among Countries

The problem is also rendered more complex by the fact that, in the case of some countries, the United States is not a creditor but a debtor. The figures already given relate to net balances, while actual figures, of course, show that some countries have a small claim upon us and that still other countries are correspondingly more heavily indebted to us. A beginning of such an analysis can be best made by further examining the position in which the United States stood with respect to various countries at the close of the year 1918. The figures contained in Table III show the total of our claims or indebtedness at that time, balances owed to the United States being indicated by a minus sign while those not thus marked represent the amounts which we owed to foreign countries.

From this showing it will be noted that at the close of the year 1918 the bulk of our indebtedness was due to the European nations with smaller balances due Asiatic countries and to South America, while we had small claims upon the Central Powers and upon countries in Africa and Australasia. The bulk, however, of our open accounts were carried with the allied nations of Europe. Our business at the present time with reference to these nations will in all probability show that our claims upon the rest of the world are largely concentrated in Europe and that as respects several of the Asiatic and South American countries we have either little or no net claim.

This, in some ways, simplifies the situation, and in others renders it more acute. Analysis of the gold imports which have been received by the United States during the past eleven months, and which now amount to over 800 million dollars net, shows that these shipments have been made for the purpose of liquidating balances that would otherwise have normally been paid in goods, and that, in many cases, the shipments were made by countries which obtained the gold either by drawing upon their banking stocks, or by getting it from other nations which had produced it and which let them have it upon credit. An example of the latter kind is seen in the shipments of South African gold to the United States for British account, while an example of the former is seen in the shipment of gold from German or Russian stocks, made directly or indirectly as the outcome of the reparations payments.

As the year 1921 has progressed, the international debt relations of the various European countries among themselves, as well as their relations with the rest of the world, have tended to become much more complex, so that even though at any time it may appear that a large part of our claims are directly concentrated upon European countries, they, even in such instances, involve the international debt relations not only of these countries themselves but also of others which are debtor or creditor to them.

The striking example of such a situation is seen in the case of the German mark whose depreciation in this market does not arise from a heavy balance of payments due from Germany directly to the United States, but grows out of such a heavy balance due from Germany to her creditors on reparations account, these creditors themselves, however, being large debtors both funded and unfunded. An exact statement of present international balances reduced to balance sheet terms for all countries would involve an extremely elaborate analysis of the same items which have already been considered for the United States in their application to each and every one of the several nations. Needless to say data for such a complete analysis are not available to-day.

Problem of Exchange Settlement

As the analysis of international balances becomes plainer, and as the experience shows the impossibility of expecting exchanges to recover of their own accord, it seems to be more and more evident that two factors must be dealt with in any effort to bring about an adjustment. It is probable that the International Conference on Foreign Exchange which is now expected to meet at no distant future will, therefore, have to address itself to these matters:

1. How to fund existing international floating or unfunded indebtedness;

2. How to bring about a satisfactory redistribution of gold throughout the world in order to put banks back upon a basis of specie payment, or in the absence of such redistribution, how to find some acceptable substitute for it.

Of these two questions, the former is perhaps the simpler, although not necessarily the easier. It is, moreover, a question which largely concerns the United States. Much has been said of the immense funded indebtedness represented by the war advances made by our Government to European nations. This now amounts, with accumulated interest, to about 11 billion dollars. This sum is frequently spoken of as "unfunded" but it is actually funded in the sense that it is represented by written certificates in the possession of the Treasury although

funding of it is still to be effected in the sense that it is to be converted into long term obligations of a definite kind.

The constant complaints of the existence of this balance and the suggestions that it be cancelled in order to relieve the world of present exchange difficulties are in no small degree irrelevant. Thus far the foreign countries have paid nothing greater than merely negligible amounts to the United States so that the debt owed by them to the Government has, except morally, been no burden whatever upon them. Indeed, if an arrangement were to be made whereby they were to begin paying interest in the early future, this debt would for the first time become a burden and the payment of such interest would aggravate the already difficult exchange situation.

The indebtedness which has really caused serious trouble and is causing it to-day, is the unfunded indebtedness which is the subject of this article, and in dealing with the situation a beginning must be made by providing for the funding of the open account items now outstanding. In other words, **a plan must be devised for the furnishing of long term credit to European and other debtors if they are actually unable to settle by any other means, as would seem in most cases to be true. The second problem, that of redistributing gold, is much more complex and is due to the fact that unless such a redistribution occurs there will be no definite means of preventing a future overdevelopment of trade along the same lines which since the beginning of 1919 have brought about the present one-sided condition of affairs.**

A FORECAST OF THE STOCK MARKET FOR 1922

(*Continued from page* 223)

in mind that no one can actually anticipate what will happen within a week, to say nothing of attempting to predict a whole year in advance. The important point is that prices have evidently turned upward for the long trend, and that bull markets have a way of running a couple of years before their tendency is reversed. This bull market, if I may so term it, began at the low point in August, 1921.

WILL MINING COMPANIES PROSPER IN 1922?

(*Continued from page* 264)

demand for these metals has been accumulating recently, during a period of industrial stringency, when potential consumers have been unable to buy, we are justified in taking a very optimistic view of the future of mining.

Conclusion

Under such circumstances, it behooves those who are following the development in the mining industry to follow at the same time the behavior of the leading mining shares, keeping in mind the knowledge, based on past experience, that these shares will discount future prosperity before it arrives, and that those companies that have large ore reserves are likely to duplicate their dividend records.

OVER-THE-COUNTER

IMPORTANT ISSUES

(Quotations as of Recent Date)

American Type Founders, com.	43- 47	New Jersey Zinc	123-125
Atlas Portland Cement	41- 47	Niles-Bement-Pond	40- 42
Babcock & Wilcox	98-102	Phelps, Dodge Corporation	170-185
Borden Company	94- 96	Royal Baking Powder Co.	90- 95
Celluloid Co.	100-102	Safety Car Heating & Light	60- 63
Childs Co.	100-102	Stetson (John B.)	285-310
Crocker Wheeler	..- 70	Thompson-Starrett	55- 65
Jos. Dixon Crucible	124-137	Victor Talking Machine	800-900
Ingersoll-Rand	140-155	Ward Baking Co.	93- ..
H. W. Johns-Manville	375-450	Yale & Towne Mfg.	260-270

Niles-Bement-Pond Company

A Good Business Man's Investment

This company is a consolidation of several tool machinery manufacturing concerns which had been in existence for a number of years prior to the organization of the present company in 1899. Miles-Bement-Pond is engaged in manufacturing various kinds of machinery, including railroad machinery and supplies, tools, lathes, drills and various small machinery. The company operates plants at Philadelphia, Pa., Hamilton, Ohio, Plainfield, N. J., Ridgeway, Pa., and Canada.

Like many concerns whose shares are unlisted, this company has had an excellent dividend record. Dividends on the common stock have been paid regularly since 1900, with the exception of the period 1913-1915, when no dividends were paid. The rate of disbursement has varied from 3% annually to 12% and in 1907 shareholders were presented with a 40% stock dividend. The present rate is 4%, payable quarterly at the rate of 1%. This rate was reduced from 1½% last February and the rate just prior to that was 2% quarterly. In other words, during the past year the dividend rate has been cut in half. However, in this respect, the company has fared no worse than many others during the recent period of depression.

In addition to the $8,500,000 outstanding common stock, there are two issues of preferred stock, one the $1,300,000 Pratt & Whitney 6% cumulative preferred, which is mostly held by the parent company, and the other the regular 6% preferred, which amounts to $1,674,200. The parent company guarantees interest on the Pratt & Whitney preferred stock, but total dividend requirements on both preferred issues amount to only $215,000 annually, not a very large amount for a concern that for years has been accustomed to earn on the average about $3,000,000 annually. It will be seen from this that the preferred stocks have a very high rating and may be considered gilt-edge investments. There is no funded debt.

The financial position of the company is solid, with about ten times current assets over current liabilities. The company carries a heavy depreciation reserve amounting a year ago to $6,000,000. This illustrates a conservative and sound corporate policy.

The common stock, while it is not listed, has a fair market over the counter and is currently quoted at 40-42. At this price the yield is about 10%, which is very attractive, considering the excellent financial position of the company, its record for past earnings and its presumably good outlook for future earnings. This issue has a good record for stability and at current levels offers a good opportunity for what is known as a business man's investment.

THE BORDEN COMPANY

A Nation-Wide Industry—Shares Seem Attractive

Although the name of the Borden Company is commonly associated with milk only, the company itself and through subsidiaries makes and distributes condensed milk, dried and malted milk, condensed cocoa and milk, condensed coffee and milk, milk chocolate, etc. It has 31 condenseries, 11 can plants, 2 confectionery plants, malted milk plants, dried milk plants, and operates in ten different states in the U. S. A. and in the various provinces of Canada.

The company invested $14,000,000 alone in the milk and cream business, which branch is in the hands of the Borden's Farm Products Co. The company suffered from the depression in general business and the high cost of operation, deliveries, production, and distribution. The advertisements of the milk producers regarding the recent strike show that employes were paid more than was generally supposed, and a readjustment in production costs should follow. The company was operating at about 40% of capacity in 10 of its plants at the end of last year and we understand that it has been doing substantially better since that time. The recent strike may reduce its income somewhat in the milk and cream departments, but the company does not entirely depend on this. In fact, the "milk business" as we know it is not the source of the largest profits.

The company owns extensive real estate and the estimated cost of $3,000,000 for its recent new building would represent an investment of over $1,000,000 out of earnings alone.

The company has a remarkable dividend record, which is unbroken, dating back to the time of its incorporation nearly 23 years ago. It has paid the 6% cumulative preferred dividends without a break and the 8% common dividends and sometimes as high as 10%, with a good margin to spare to put back into the company. We have seen no report of earnings prior to 1919, but the company reported nearly $11 a share on the common last year and a trifle under $18 in 1919. Gross business in both years averaged around $120,000,000. The preferred dividend was earned nearly five times last year and nearly eight times in the previous year. The company has never had any funded debt, having built up the business out of earnings and small issues of new common stock, which latter has only been increased to our knowledge under $4,000,000 in all the years it has been in business. Apparently in 1917 and 1918 the company earned approximately 15% on the common stock on the average. It is safe to assume that

BORDEN CO.

Consolidated Income Account Year to Dec. 31, 1920.

Gross sales	$120,293,572
Net op. profit	3,503,002
Other deductions	684,142
Net income	2,818,859
Previous surplus	6,856,051
Total	$9,674,911
Dividends:	
Borden Co. pfd. (6%)	$450,000
Borden Co. com. (8%)	1,709,440
Borden's Farm Products Co. 1st pfd. (7%)	29,239
Appropriations for res.	605,920
Loss on prop. and sec. sold	275,534
Surplus, Dec. 31, 1920	$6,604,777

the company has "plowed back" a sum not far short of the annual dividend—$8 a share—in the past 10 years at least.

Current obligations (unfunded) were rather large last year, totaling over $16,000,000, but on the other hand receivables, cash and Liberty bonds were nearly $10,000,000 and inventory not far short of $20,000,000. The company's credit is apparently excellent and it can undoubtedly finance its current obligations and loans from banks. The stock is slightly higher than the low of about 85 this year, the present market being 97-100. At the bid price the yield would be 8.3% with ultimate possibilities in the way of extras and much higher market prices. One cannot but conclude that the preferred stock selling around 90 and paying $6 a share to yield 6.7% is a gilt-edge investment among the best of the issues that have a permanent and reliable market over the counter.

Borden's Farm Products Co. is controlled by the Borden Company, which was organized in 1917 in exchange for the Farm Products Company, capital stock of $14,000,000 representing the tangible investment in this branch of the business. Both the preferred and common stock outstanding to the ex-

(*Continued on page* 288.)

HOW BUCKET SHOPS SWINDLE BANKERS AND BROKERS

(*Continued from page* 231)

through another. This requires a larger initial capital but after a few weeks of such trading the offsetting trades reduce the capital requirement to little more than where only one account is carried.

However, no real effort appears to have been made to test out the possibility of invoking this law, and the illegitimate brokers insist that the worst they have to fear from this enactment is a civil suit to force them to regain possession or control of the stocks and this they point out is hardly worth while to the client as the particular account under review could readily be placed in the proper bookkeeping shape and the case beaten on its legal merits.

Position of New York Stock Exchange

It is decidedly in place to consider here the position of the New York Stock Exchange in the fight against the bucketshop evil. The "Big Board" has a far greater interest in the subject than any layman or publication. THE MAGAZINE OF WALL STREET is interested, for example, in protecing its readers from these prowlers of the financial district who have rendered many people unnecessarily afraid of investment securities and have given a false view of legitimate trading operations. The layman is interested in the subject only so far as his own funds are concerned, and he is very apt to decide that for his own protection he will stay away from "Wall Street"—which to his mind means not only trading but investment in the best of listed stocks and bonds. Curiously enough he then becomes easy prey for the itinerant promoter of inflated local industries, but that has no part in this article.

But the New York Stock Exchange is primarily interested because the bucket shop uses the institution's quotations as the basis for its nefarious operations, and seeks always to give the impression that it is a member of the Exchange—an impression greatly facilitated by purchases of stock on margin from a sure-enough member of the New York Stock Exchange The Bucket Shopper "gives up" that name on the confirmation sent to his client. The inference is obvious that both brokers are members of the same exchange or they would not trade together. **The law enables a broker to give up in this way the name of the Stock Exchange member without requiring the bucket shop to make clear that it has only purchased the security on margin and is only a client of the Stock Exchange firm just as any one else might be.**

Ticker Quotations

Up to 1912 bucket shops had unrestrained use of the quotations of the New York Stock Exchange. Everybody had. The Western Union Telegraph Company distributed the quotations and under its contract the Stock Exchange had no supervision over the quotation clients of the Western Union. In 1912 following the Hughes investigation the Stock Exchange took up the question of revising the contract with the Western Union but it was not until June, 1914, that the new contract and regulations were in proper shape.

Then the war broke out and the Stock Exchange closed. When it reopened in December, 1914, the new contract went into force. Under it the Western Union cannot give quotations to any one without the sanction of the New York Stock Exchange, and the service can be terminated instantly without previous notification. Frequently it has been found necessary to cut off quotations from non-members whose methods of doing business did not appear to meet the test imposed by the Stock Exchange and the tickers have been disconnected in the middle of the day to the amazement of the customers who happened to be present when the wires were forcibly ripped out.

This new contract deprived the bucket shops of quotations except for the leak that grew out of injunction proceedings instituted by several non-member brokers who had been getting quotations under the old contract. These injunctions were in force for something like 18 months. In the meantime the Stock Exchange—in 1915—accused two of its members in Pittsburgh of dealing with bucket shops, and after trial they were suspended, one of them selling his seat before his year's suspension expired. The other has not given cause for suspicion since then.

In March, 1916, the Pennsylvania authorities, who had been interested in the situation by the New York Stock Exchange, which had assisted in gathering the evidence, raided the "Bucket Shop Exchange" in Pittsburgh, arresting some of its members and closing the exchange for good.

It was this, in the estimation of the Stock Exchange that ended the bucket shop, and so far as the old-time bucketing organization is concerned the demise was positive. The individual "shop" whose operator worked "on his own" had given way to the nation-wide ring with its hub in Pittsburgh. And this had been scotched.

Since that time no one has enjoyed the use of the quotations of the New York Stock Exchange unless he has been approved by the committee on quotations of the Exchange itself, and, some people claim, one can feel safe in doing business with a broker who has this ticker service. There are other tickers that may look like the real one to the unsophisticated and it may not be advisable always to take the broker's word for it. There are ways of finding out.

Authorities Face Difficulties

As to the relations between the members of the New York Stock Exchange and the bucket shops, or between the bucket shops and members of the Consolidated, Boston, Philadelphia or other stock exchanges where many of the same securities are traded in, the authorities of these exchanges are in a rather difficult position, as they view it.

The modern bucket shop, as a client and not as a broker, has naturally the privilege of calling its broker-member of the Exchange on the telephone and of getting the latest quotations on a number

of stocks. It is a question whether it has a right to "continuous quotations" which is a different matter altogether. The courts have held that the Chicago Board of Trade is entitled to exclusive ownership and control of its quotations and the same decision is believed to cover the New York Stock Exchange quotations.

The bucket shops in many cases have direct or special wires to Stock Exchange houses to facilitate the transaction of business, such as the placing of orders, verbal confirmations of executions, transmission of occasional quotations, and so forth. That they feel entitled to special service may be gathered from the fact that they give a large amount of business to the brokers and these last, although they are members of the Stock Exchange, are not always overly anxious to detect evidences of offsetting or bucketing sales. These telephones to Stock Exchange members enable the bucket shops to transmit to other offices with which they may be connected by private telegraph or telephone wires, quite a string of quotations, and to give the appearance in these other offices of receiving the "continuing quotations" so desirable to the transaction of bucket shop operations.

The Stock Exchange, however, as its officials so often have pointed out, cannot convict a man on suspicion. It has been the rule of the "Big Board" never to convict one of its members of an offense unless it was felt that the evidence presented would warrant a conviction in a court of law, if the same ethical or moral transaction were a violation of a State law, and the difficulty in proving the improper relations between legitimate and illegitimate brokers is increased by the unwillingness of the average man to admit that he has been victimized. He doesn't want his business associates, his family or his friends to know that somebody got the better of him and swindled or robbed him of everything except his eye-teeth.

SWITCHING INTO INCOME

(*Continued from page 249*)

orado & Southern to Baltimore & Ohio resolves itself into the following factors:

1. Colorado & Southern has fully demonstrated its ability to earn a substantial balance on its common stock with its present fixed obligations, which have increased very slightly in more than ten years, whereas Baltimore & Ohio has not yet shown an earning power sufficient to leave a substantial balance on its common stock, after providing for its greatly increased fixed charges.

2. Colorado & Southern has resumed dividend payments again for the first time in nine years and should have no difficulty in maintaining a \$3 annual dividend, if the directors of the parent company so desire it, whereas the outlook for a resumption of common dividends on the Baltimore & Ohio within the next year or two seems unlikely.

3. Colorado & Southern common at \$42 a share, paying \$3 per annum and giving a return of 7.1% on the investment is a better speculation than Baltimore & Ohio common at \$36 a share, paying nothing.

4. The fact that Burlington has increased its annual dividend on the common stock from 8% to 10% per annum makes it very probable that the road may change its entire policy of no dividends on the Colorado & Southern common, and place the stock on at least a regular 3% per annum basis, in order to relieve itself of part of the extra burden.

OVER THE COUNTER

(*Continued from page* 285.)

tent of around $14,000,000 are owned by the Borden Company. It is claimed that the company makes only a small profit on the milk distributing end of the business and no reports are available as to the earnings of this subsidiary. This end of the business controls a vast chain of distributing depots, stores, milk wagons, trucks, automobiles and perhaps several millions of milk bottles.

Prohibition, education as to the value of milk and its products, and increase of population are back of our prediction that the company will continue growing. Every advertisement, every item of publicity regarding milk—even of competitors—helps the Borden Company.

We believe that it will pay the investor already committed to stand by his company and for safety we know of very few sounder stocks than the Borden's preferred issue and we believe there are excellent possibilities for the common stock eventually.

ANACONDA FACES PROSPEROUS FUTURE

(*Continued from page* 265.)

out extensive vein areas below present available workings.

We should not overlook the large copper properties in Chile which the company is developing and equipping for these mines will eventually become heavy producers of low-cost copper. When brought up to production, the Andes Copper Co., Anaconda's South American subsidiary, is expected to rank with the biggest copper mines of the world. An ore body eighteen hundred feet long, nine hundred feet wide and eight hundred and fifty feet deep, has been determined by churned drilling operations. This immense ore body is estimated to contain more than 30,000,000,000 tons of ore averaging about one and one-half percent copper.

Anaconda's further activity in the industrial field, and its development as a selfcontained organization, is suggested by the recent discussion with reference to its purchase of shares of the American Brass Co. As the American Brass Co. is a large buyer of copper, and has been in the market recently with substantial orders, it is logical that such an organization should be in close alliance with Anaconda.

Conclusion

From time to time we have advised our readers to accumulate the leading copper shares, including Anaconda, as soon as these shares began to discount future improved conditions in the copper industry. This discounting process has been so apparent of late that it is hardly necessary to warn those who have funds available for the purchase of additional copper shares, to give serious consideration to this issue before the preliminary discounting movement is over and the shares become toppy or reactionary prior to their ultimate further advance.

GO WEST YOUNG MAN

(*Continued from page* 236)

return to normalcy."

Taking pattern from English publications our public prints might very effectually devote more attention to trade and other commercial opportunities in South America or Asia in substitution for the enormous number of front page lectures from England about blood being thicker than water, from France that she resents this, that and the other world happening from Italy the pleading for pooling of the world's natural resources and from Germany sarcastic or occult comment upon what America does or omits to do.

We do not need and we should never seek for world dominion to the disadvantage of honest competition of other nationals. Ethically and economically it may be a question whether wo ought not to moderate our fierce competition in eastern South America and thus to a large degree leave Argentina and Brazil for European exploitation.

Logically we should and inevitably we shall turn about from East to West. Nations (quite like individuals) tend to follow the line of least resistance and this is obviously the countries bordering the Pacific.

We shall take example from England from the time when she became a factory developing the resources of backward countries and creating a vast consumptive power thus benefiting ourselves and all mankind.

It is high time to begin lest Japan may forestall us.

The psychological moment is here. With Australia and New Zealand there is evident rapprochement (as witness the recent New York Queensland loan), China is more than friendly and since the opening of the Panama Canal Colombia, Ecuador, Peru, and Chili are much closer to the United States than to other countries.

The resources and potential consumptive power of China and India are known to all. "The commercial current that before the war flowed between the Dutch East Indies and Europe is now partly turning to the United States." In the five years ending with 1918 we doubled our exports to Australia. From 1913 to 1916 our sales to New Zealand increased from $1,000,000 to $2,500,000 for automobiles, from 0 to $1,500,000 for pneumatic tires, from $5,000 to $200,000 for motorcycles, from 0 to $140,000 for glass, from $5,000 to $250,000 for socks and stockings, from $350,000 to $500,000 for electrical machinery, and from $95,000 to $500,000 for cotton fabrics. Lastly, western South America. A recent issue of the London *Statist* dwells upon the vast possibilities of Colombia and vehemently urges Englishmen to action. Ecuador is but awaiting an awakening by some enterprising nation. In Peru there is production of wool, the finest cotton in the world, a high grade of sugar, stupendous unexplored mineral wealth, immense timber tracts and one expert has recently stated that "the whole of Peru lies in a basin of petroleum."

"GO WEST YOUNG MAN!"

A CRITICISM OF THE OLDHAM PLAN

(Continued from page 247.)

group had no special advantage over the other in location, character of traffic carried, operating costs, maintenance charges, or in any other essential operating factor—the necessary readjustment of the capitalization of the 'weaker' group is all that is required to make their financial showing similar to that of the stronger group."

Does Not Cover All "Weak" Roads

The reader should understand that this general statement would in no way cover those roads which the MAGAZINE treated as "weak" because of lack of feeders and branch lines, or roads without a proper outlet for traffic, or insufficient terminal facilities. But even those roads which have ailments other than over-capitalization should as part of a completely unified system, if properly allocated, strengthen and not weaken the system. But to get back to what Mr. Oldham has to say:

"Thus it is evident that the difference between the financial condition of the strong roads and the weak—is accounted for by the form of their financial structures. This is an important fact, for it indicates that by making over the financial organizations of these 'weak' roads, they can be placed on a basis of financial soundness similar to that of the so-called 'strong' roads."

Consolidations as Proposed by Oldham Plan

The consolidations proposed by Mr. Oldham only serve to emphasize the wide difference of opinion that is bound to arise when it comes to actually devising a means for consolidating the Class I roads of the country. Mr. Oldham makes some very radical changes from the original plans of the Interstate Commerce Commission and Professor Ripley.

First of all Mr. Oldham proposes 13 systems to cover the country instead of the original 20 systems. In the Eastern Group the more important changes are as follows:

1. The New England system to be jointly controlled by the four large trunk line systems of the East.
2. The Nickel Plate—Lehigh Valley system is discarded, the former road included in the Erie system and the latter in the Baltimore & Ohio—Reading system.
3. The Pere Marquette instead of being the basis for an independent system is also included in the Erie system.

This plan of Mr. Oldham's does not appear to be a very sound one because he has apparently not given sufficient weight to three of the most important considerations that must form the basis of any plan to consolidate the railroads, and they are, namely:

(a) The maintenance of free competition between roads operating in the same territory, and,

(b) The maintenance of a sufficient number of competing systems to take care of the growing requirements of the country.

(c) Maintenance of existing channels of trade.

To eliminate these two systems in the East would not be in keeping with the plan (b), and the inclusion of Nickel Plate and Pere Marquette with the Erie R. R. would certainly destroy the open competition between these three roads, which it is very important to maintain. The inclusion of Lehigh Valley with The Baltimore & Ohio—Reading system is certainly not in keeping with the third basic consideration for consolidation.

In his 7th system Mr. Oldham includes the Seaboard Air Line with the Southern system. The Commission's plan to include this with Illinois Central seems to be a decidedly better disposition of this road. Reasons for this were fully discussed in the October 29th issue of THE MAGAZINE OF WALL STREET.

Northwestern-Southwestern Consolidations

Perhaps the most startling proposal of all is the one in which Mr. Oldham links the Southwestern roads with the Northwestern. What benefits would accrue to the roads or the country from such an arrangement seems hard to ascertain. Mr. Oldham states in so many words that the linking of Southwestern with Northwestern carriers will give direct and through routes from the north to the south and will enable each Northwestern road to compete successfully with each other in the Southwest, but will not the same through routes be there whether these roads are consolidated or not? It is entirely unnecessary that the roads in one region invade the territory of another to effect any economy in operation or to benefit the business of the country one iota.

This does not appear to be nearly so feasible a scheme as that of consolidating and strengthening the Southwestern roads into three or four independent competing systems.

THE FUTURE OF NON-FERROUS METAL PRICES

(Continued from page 240.)

ZINC has shown more signs of life recently with quotations at about 4.65 cents a pound against 4.27 cents a pound last July. The unfavorable statistical position of this metal is gradually being improved. Consumption is developing on a larger scale and the outlook seems for a higher and broader market within a relatively short period.

THE FUTURE OF THE WORLD'S CURRENCIES

(*Continued from page 239.*)

"It is clear then that in the solution of the world's present economic and fiscal problems the United States must also play its part. The solution can be achieved only by a realization of the fact that as this gigantic conflict was universal in its scope and in its effects, so the remedy must be equally universal in character. Whether we desire it or not, we have all become integral parts of a stupendous world mechanism, no portion of which can cease to function without inevitably affecting the activity of the rest. The slogan of economic and fiscal reform must be: 'Set your own house in order, but join with your neighbors in setting the world house in order.' To this imperious demand practical policies must be adjusted; for the sake of this economic necessity old shibboleth must be discarded and outworn political programs relegated to the dust heap. Not aloofness, but constructive co-operation in both politics and economics must henceforth become the watchword of the United States."

In a prefatory note to Dr. Seligman's work, President Alvin W. Krech, of the Equitable Trust says, in part:

"Currency inflation and public debts form a vexing problem which has called forth the liveliest discussion not only in the ranks of economists, but also among business people who find in the fluctuations of the foreign exchanges a constant reminder of the financial difficulties which confront the world. In asking Dr. Seligman to prepare for our enlightenment an historical sketch of currency inflation and public debts, we believed that a study of the past might well help us to understand better present-day conditions. Dr. Seligman's timely paper and his conclusions drawn from the lessons of history have encouraged us to present here, under the guise of a prefatory note, a few observations.

"1. As is clearly pointed out, there is no such thing as a medium of exchange, money or currency which is not subject to fluctuations in value; gold, silver, copper, all fluctuate. Fiat money fluctuates not merely in accordance with the laws of supply and demand; the determining factor of its fluctuations is to be found in the credit of the issuing nation, and as every emission of such currency is the consequence of impaired national credit, it is, in effect, a step on the road to the possible repudiation of existing debts. As a consequence each step towards repudiation affects adversely the class which has invested its savings in obligations solvable in the forced currency, while it has a contrary effect upon the debtor class.

2. The pound sterling would be at parity with the American dollar even though not convertible into gold (except as affected by the balance of trade), provided the British Government debt were in a fair way to progressive liquidation. The same is true of the French franc.

3. A stable currency, that is to say, a currency based upon its interchangeable value with gold at parity, however desirable, does not seem to be essential to free

commercial interchange of credits and commodities.

4. The extraordinary currency inflation of the various late belligerent governments of Europe is setting up new and wholly factitious channels of world trade.

Dr. Seligman's paper is, it must be admitted, not conducive to optimism, but to our mind its austere and clear outlines convey a lesson which should not be missed.

Europe must be given a true peace capable of bringing back faith in the future, without which her most strenuous efforts must remain sterile. Europe cannot live without a peace full of serenity, without good-will among its several nations; there is not one nation in Europe which can live without the good-will of the other nations. Talleyrand said: *"Pour moi, les vrais intérêts de la France ne sont jamais en opposition avec les vrais intérêts de l'Europe."* Thus spoke the greatest master of French diplomacy, and his splendid dictum should be the motto of every diplomat, of every statesman in the world: "The true interests of my country are never in opposition to the true interests of the world."

THAT HOME

(*Continued from page* 262.)

Let us suppose he buys the house for $10,000, paying in his $3,000 cash and giving a mortgage for $7,000 at 6%. His outgo now is: Interest, $420; taxes (say) $250; repairs and insurance (say) $120; total $790, to which must be added his $210, formerly received on investment.

This makes a total charge of $1,000 as against a rental payment of $1,200. The saving of $200 over the $210 calculated worth of his $3,000, results in about 14% on his $3,000 when invested in a house. If my figures are fairly correct as to above, the result is certain.—Old Reader.

Investments in Building & Loan shares mature in a period of years after the original investment was made. During life of the shares, interest of sometimes as much as 8% a year is paid. At maturity, the full investment is returned, as well as an additional percentage, depending upon the "earnings" of the series invested in. To reinvest the money invested in such shares is merely in line with the customary savings idea of pyramiding your savings. You "get on" when you enter a series. You don't "get off" until you feel inclined. If our version of the answers to your questions is not clear, we suggest that you approach the Franklin Society for more detailed information.

Your outline of the financial side of home-building is interesting and convincing. Your figures will not, we suppose, apply in the same proportion in every case. However, they seem reasonably conservative.

Perhaps other home builders can check them up for us from their own experience. If so, we should be glad to publish their views. Meanwhile, we thank you for your inquiry.—Editor.

ABOUT BANKS AND BANKING

(*Continued from page* 240.)

for a broadening demand in the leather market, both from domestic and foreign sources. There is little doubt that the corner of depression has been turned and that the industry is headed toward a period of greater stability."

As to whether or not expansion is justifiable at this time, that depends entirely upon the actual condition of your own organization. Your organization's "resources"—which is a short way of referring to its ability to turn out more goods without sacrifices elsewhere—is of primary importance. There are concerns which are so loosely strung together that no amount of business improvement could justify further expansion; other concerns so tight, compact and efficient that they could profit from only a slight upturn.

If you do not feel competent to decide this question for yourself, it would be a wise plan for you to secure the services of a competent industrial engineering house, or of a bank. Efficiency in the organization you've got is something it pays to be mighty sure of before you start branching out.

We recently had occasion of discussing a problem somewhat similar to yours with representatives of the Guaranty Trust Co. You could not do better than lay your proposition before an institution of this character and calibre.

IS GERMANY COMING BACK?

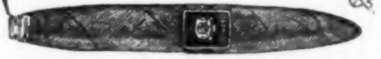
(*Continued from page* 235.)

instance, who bought 10,000 marks' worth at 4 marks to the dollar, which cost him $2,500. If he should sell now, although his stock is now selling for 800% of what it cost him, he would get only $400, a loss of $2,100 on his commitment. The same holds true of stocks bought since the war at various levels of the mark.

The rise in the dollar rate makes German stocks go up on the home markets, but at the same time makes their value less in America. The only consolation the speculator in German securities has is to look at the chaps who bought marks at 6 and 4 and 2 cents to the mark on the "certainty" that it was going to par within a year. Naturally the losses of the out-and-out speculator in marks are considerably heavier, as he has nothing corresponding to the increase in the price of stocks to partially offset his losses.

Within Germany, however, there continues to be a terrific bull wave, both in the foreign exchanges and the home securities. It is called by the German writers the "Flucht vor der Mark," or flight from the mark, the theory being that a German is willing to invest his money in goods, foreign exchanges, securities, real estate, or anything but mark currency.

The speculation here is even more widespread than we had it in America in the palmy days of 1919-1920. The banks, which handle all the Stock Exchange business here, are doubling and tripling their office force, buying up buildings at fabulous prices, putting up new buildings



(and they are among the few who are) and have announced that they will receive no orders after nine o'clock in the morning. At Frankfort the Exchange is closed about three days a week, on account of too much business. When the market is closed huge crowds form in front of the banks to read the latest quotations, a phenomenon never seen before, and in the crowds are young bloods, elderly, worried officials, robustious business men, workingmen, women of the people, in short, a cross-section through German life.

No Time to Buy Marks

With all these people so anxious to get rid of their marks in favor of something representing more durable values, it seems to be no time for foreigners to contradict their opinion by making fresh purchases of marks. In fact, indications are pretty definite that now is a time to close out all holdings, no matter what the loss, lest worse things befall. As for holders of German securities, in view of the fact that stock prices do not fall when the dollar rate falls quite as fast as they rise when dollars rise, it would seem advisable to sell on a substantial dip in the dollar quotation, with instructions to convert the marks obtained by the sale of the securities into dollars at the prevailing rate.

A GIANT TEMPORARILY CRIPPLED

(*Continued from page* 250.)

has instituted a policy of wage reductions which will bring the wage level down to that existing in the Spring of 1920. Furthermore, and what is probably the main point of improvement, the company is not buying merchandise very heavily and is resorting to every means to reduce its inventories as much as possible. It is probable, therefore, that within a period of, say, six months this item will have been reduced to a healthy figure.

Outlook for Common Shares

So far as the outlook for the common stock is concerned, it appears that, regardless of further reduction in inventories, resumption of dividends on this issue will have to wait upon a considerable reduction in notes and bank loans. In a previous article on this company, the writer pointed out that Sears, Roebuck common was not attractive as a non-dividend payer at 65, which was the price then quoted. Since that time the stock has declined to about the present level of 54; but the same thing still applies. For those who can afford to wait, the present price of the issue commands consideration. Undoubtedly Sears, Roebuck, as an old and stable concern, will eventually emerge from its present difficulties, and when its funded and floating debt has been removed, the common stock may revert to its old-time status as a standard issue. But for investors who require immediate return on their investment, there are other issues that appear more attractive.

An Official's View

In connection with the foregoing discussion of Sears, Roebuck, a member of the staff of this Magazine re-

cently had occasion to talk with one of the company's officials. The official, although he did not feel justified in talking "for publication," nevertheless had some interesting things to say which, in effect, we append here:

"Sears, Roebuck contemplates no new financing.

"Our company is in fine financial shape.

"Yesterday (December 7) we took in 105,000 individual orders for goods, as contrasted with 83,000 orders on the same day a year ago.

"We have got a long way to go; but we have confidence.

"The farmers are not buying. They are confining their purchases to the absolute minimum. Despite that fact, our business is increasing. I do not know what will happen when the farming community gets back on its feet and we have to meet orders from there in addition to the business we are already doing."

WHAT THE ADMINISTRATION HAS DONE

(*Continued from page* 229.)

recognition of her obligations would greatly relieve the strain in France—where most of the old external debt of Russia is held—and avert the impending bankruptcy of Germany. France, if she could look to Russia for payment, could readily reduce the German reparations.

"With her vast natural resources, two-and-a-half times as great as our own, Russia could easily meet all her obligations once she is on a productive basis, to which she can be readily assisted to the advantage of the other powers. The Russian well is as full as it ever was, but the pump needs priming. The priming must come in the form of outside capital. In some fashion Russia can get along without the rest of Europe, but Europe can not recover without Russia; and, without the most drastic readjustments and the severest economic suffering, we can not recover without Europe. The restoration of Russia to her proper function as a vital part of the general economic organism of the world must precede any marked advance toward normality and the lasting improvement of business.

"The three political settlements that must precede the re-establishment of the world's economic equilibrium—elimination of the debts of the allies to us, rational revision of the German reparations and the rehabilitation of Russia—can be speedily and easily accomplished. The best minds of Europe are beginning to see both the problem and the solution—and our minds must not remain closed. America must act. Our government ought to take the active initiative.

Investors Can Influence Action

"In ordinary times the average investor finds difficulty in ascertaining the great controlling factors which inevitably determine the long downward or upward swings of business conditions and of the securities market. At this time the dominant factors must be apparent to all. Not only so, but the average investor can influence fundamental conditions and the course of the market by adding his voice to the demand for a rational governmental policy in respect to those international economic problems which can only be settled by political action.

"We are now in what should be a period of recovery of business, with a strongly rising market for securities and commodities discounting an unprecedented world prosperity which should quickly come. But the adverse conditions and factors, which persist because of unwise governmental policies, are holding back the normal restoration of sound economic conditions.

"Prosperity is on the lap—not of the gods—but of the Government at Washington."

OUTLOOK FOR PHILADELPHIA COMPANY'S SECURITIES

(*Continued from page* 269.)

Philadelphia Co. employs a relatively small working capital in the conduct of its business. At the present time it is in a strong position with cash and receivables of $3,000,000. In addition the Duquesne Light Co. has $6,000,000 in the banks which sum is set aside for payments on construction work now under way. This does not take into account the cash recently received from the sale in October of $16,000,000 first refunding and collateral trust 6s, Series A, the proceeds of which will be used to retire $9,794,000 convertible 5% debentures, due May 1, 1922, and to fund obligation of the company incurred for capital expenditures, and for retiring other funded indebtedness.

In view of the fact that over a period of years fixed charges have been earned on an average more than three times over the bonds are entitled to a high rating. The 1st refunding 6s due 1944 at present prices of around 91 yield about 6.8% on the investment. They are a first mortgage (subject to $300,000 prior liens) on gas properties valued by independent engineers at $35,000,000 and a first lien on securities of electric light, power and oil companies valued at $21,000,000. Against these properties the issue of bonds is limited to $25,000,000. They are further secured by a mortgage on additional gas properties valued at $41,000,000, subject to $16,622,000 underlying bonds. The 5% debentures due May 1, 1922 are an excellent short term security selling just under par.

There is $14,531,150 6% cumulative preferred, par $50, outstanding and $42,943,000 common, par $50, which is paying 6%. At present prices of around 37 the preferred yields a little better than 8% on the investment and looks like a very attractive investment at that price.

The common stock at present prices of about 33 yields 9% on the investment and appears attractive as a long pull semi-speculative investment, in view of the excellent record of the company, its good financial condition and the big strides forward its electrical department is making. Control of Philadelphia Co. is held by the United Railways Investment Co. through ownership of $24,475,000 of its common stock.

BUSINESS CONDITIONS A LITTLE QUIETER

(Continued from page 271.)

firm notwithstanding the temporary lull in business. Producing interests have the market well under hand. There is some talk of resuming operations early next spring.

The movement of lead, zinc and tin has slowed down as in the case of copper but the respective markets hold firm. The outlook generally is for an increasing demand and very probably a higher price level as the fundamental situation with regard to each of these metals has improved considerably.

PAPER

Slight Improvement Shown

Although December is generally a slow month for the paper business, conditions seem to be improving. Newsprint consumption and demand is somewhat greater and foreign competition has eased off, many domestic consumers preferring the American product on account of its superiority. Book paper is dull, buyers preferring to postpone purchases until they can secure better terms. Fine papers are a little better but a large demand is yet to materialize. Tissue paper is less active but sellers are unwilling to shade prices.

The situation thus has a somewhat irregular aspect. Probably the only department which is working at close to capacity is the bag and wrapping paper branch. Jobbers complain of dull conditions in almost every section of the country but a greater volume of business is in sight. The industry, briefly, is working gradually toward a condition of genuine stability.

CHEMICALS

Demand Larger but Prices Lower

The contract market for heavy chemicals is very active. The demand for 1922 supplies on contract is exceptionally keen but prices are being shaded, particularly on caustic soda which has seen the first contract price for 1922 already lowered. However, the general tendency is to book contracts well into 1922 and from this angle the chemical industry seems considerably strengthened.

In the dye market conditions are slowly changing. Selling pressure has largely disappeared and prices appear at the bottom. A larger amount of inquiry is noted which will probably be translated into actual business very shortly. Added business is expected from foreign sources.

The drug market is slowly hardening. Few items in this group are really weak and there have been several instances of higher prices. Stocks are not large and the underlying situation is slowly improving.

HOW ONE MAN MADE HIMSELF SAVE

(*Continued from page* 263.)

strange impulse to experiment, I opened five new accounts, and thus transformed $2.50 of cash assets into $5.00 of "book value" within 24 hours. I promptly put the matter out of my mind, but a few days later, when I received five new pass books and five diplomatically worded letters congratulating me on my thrift, I felt foolish, and realized how much trouble I had caused, and how I had increased the "overhead expenses" of five perfectly worthy institutions, and had thereby incurred five new moral obligations.

Imagination, if allowed to play within reasonable limits, sometimes conceives strange schemes with worthy possibilities. **I decided to justify my original premature impulse by giving my five new bankers their money's worth, and at the same time stimulate my desire to save. As my original savings account was by this time a little beyond the $100 mark, I decided to withdraw an even $100 just after the next interest payment date, and buy a safe $100 bond paying 5% or 6% interest, preferably a municipal bond, for this all happened before Liberty Bonds were offered. At the same time I decided to build up the five new savings accounts in rotation, so that each one of the six would be in condition to yield an even $100 at a different time, and still contain a nest egg for another $100 structure.** This was accomplished by depositing each monthly 10% reserve in a different bank until I had made a deposit in each of the six banks, and then I would repeat the cycle.

How Bonds Were Selected

In selecting my $100 bonds I consulted the bank, became acquainted with some of the officials, and asked them to recommend a bond which they would be willing to accept at all times as collateral for a loan of 80% to 85% of the bond's face value. My idea was to provide for emergencies and opportunities that might require ready money. This proved to be a wise precaution, for I learned in due time that although the issues I accumulated were sound, they were naturally parts of substantial blocks of such bonds as had been underwritten by the bank, and which were more welcome as collateral in the bank that sold them, than at other institutions that were interested more particularly in the success of their own underwritings.

Furthermore, I learned later that brokers at a distance had little interest in the obligations of municipalities of which they had never heard. In fact, on one occasion when I desired to offer a number of these small municipal bonds,—together with some Liberty and Victory bonds which had been acquired in due time as a result of this "system of compulsory saving,"—as collateral for a sum which was needed to apply on the purchase price of a piece of real estate, I learned another lesson. This broker rendered me a service which will not be forgotten, but he had the effrontery to tell me that he would advance the money more as a personal favor than in consideration of my assortment of "junk" regarding which he knew little, and as to the ready convertibility of which he was in doubt. He suggested that the loan be cut down as soon as possible so that it would fall within the protection of the "Liberties." This incident illustrated the desirability of looking further ahead than I had done when I bought my first bonds, and suggested that it would have been better to consider securities with a wider and more active market, that is to say, at least in reasonable proportion, such issues as are listed on one of the large exchanges, so that they might be more acceptable collateral on account of their ready marketability.

"Reclamation from Waste"

Aside from the incidental experiences with regard to securities, trust companies and bankers, derived from this escapade in finance, I developed a habit of saving that was effective as to results, even if it was unnecessarily cumbersome in practice. Later, for convenience I reduced the number of savings accounts, but I always recall the fascination of the "chain savings bank game" that I played, and the satisfaction I had in making the little scheme accomplish its purpose, namely, *reclamation from waste.*

WHY WHEAT IS SELLING AT $1 A BUSHEL

(*Continued from page* 239.)

only a "difference", but no matter what the motive may be, an actual bona fide purchase or sale is made. Real, tangible property is bought and sold. If grain is sold "short" a corresponding amount must be purchased to offset the sale. If the grain is bought "long", the grain must be accepted or sold to some one who wants it. Uninformed persons say that the speculators buy and sell a hundred times as much grain as is harvested. This simply shows an economic poverty of understanding. The truth is that the grain marketed is bought and sold many times during its movement along channels of commerce. This is an axiomatic truth. It is impossible to enter into a contract for the purchase or sale of grain if there be no grain with which to perform the contract. It is perfectly apparent that contracts cannot be pretended contracts. They must contemplate the delivery of the subject of the contract, which, at maturity, must be performed. Every contract made on the Board of Trade is performed. To be sure, many contracts are offset and any amounts owing thereon are paid. This has been pronounced by the United States Supreme Court as being entirely legal and as having all the effects of delivery.

It is self-evident that a time contract for, say 10,000 bushels of wheat originating with John Smith, and sold by him to John Brown, and by the latter sold back to John Smith, can legally be, by that action, canceled as effectively as by waiting until maturity and exchanging the elevator receipts which cover that particular lot of grain. Nor would there be any substantial difference if there were several other persons—five, ten, twenty, any num-

ber—between Smith and Brown, all having bought and sold contracts between the sale of the grain by Smith and its repurchase by him from Brown. If the ring of contracts begins and ends with the same person there can be no advantage in holding them open until maturity and then passing the elevator receipts around the ring from John Smith, the original seller, back to John Brown again, the last buyer. Settlements or offsets of this nature have been declared by the highest court in the country to have all the effects of delivery and are perfectly legal. All contracts on the Chicago Board of Trade which are not offset are performed by actual delivery of the property; absolutely no other course is possible.

Farmers as Speculators

The farmer, as a class, is now the largest single body of speculators we have. He has rapidly become so, changing in a space of twenty years from a class, dependent upon the speculator as a holding body because of financial inability, and mostly in debt at all times, to the most uniformly thrifty class in our country. Whereas necessities arising through his own impecunious position formerly forced the farmer to sell his product without delay, today, more than any other class, he suits his own pleasure and convenience in marketing his products. In doing this, he performs the identical function which he formerly imposed upon the speculator, and takes upon his own shoulders the risk of ownership. It is this assumption of risk which makes him, as a class, the most speculative of any in our country today having to do with soil products. **When the farmer plants his seed he becomes a speculator. He doesn't know whether the water and sunlight of heaven will find his grain in proper quantities to mature it. He anticipates "future" Providential favor. When he harvests his grain, stores it in his bins, and sells 5,000 bushels to his merchant to be delivered as fast as farming conditions will permit, he becomes the first trader in "futures."**

Speculators Useful and Important

The speculator performs a very useful, a very important and a very necessary economic function in the marketing of the grain crops. This service may be summed up in the following words: His operations stabilizes the future market, so that hedging sales may readily be made at all times. Without speculation a hedging market would not be possible. There would be no balance wheel. Without speculation the futures market would be like a ship without a rudder, plunging, under the influence of small buying and selling, first one way then another. There would be no buyers when elevators attempted to sell grain for future delivery, as a hedge against purchases of grain in the country, and there would be no sellers when millers wished to buy for future delivery as a hedge against flour sales for distant shipment. Speculation also provides a continuous market throughout the year and at reasonably steady prices, and such a market is absolutely necessary to all who wish to hedge their holdings of produce.

MARKET STATISTICS

	N. Y. Times 40 Bonds	Dow, Jones Avgs. 20 Indus.	20 Rails	N. Y. Times 50 Stocks High	Low	Sales
Monday, Dec. 5	75.85	78.93	75.01	68.83	67.64	828,097
Tuesday, Dec. 6	75.79	79.36	75.24	68.63	67.66	721,520
Wednesday, Dec. 7	75.78	79.19	74.60	68.92	67.71	966,070
Thursday, Dec. 8	75.75	78.80	74.22	68.06	67.14	651,544
Friday, Dec. 9	75.54	79.60	74.35	67.96	67.17	590,840
Saturday, Dec. 10	75.58	80.16	74.48	68.33	67.72	471,700
Monday, Dec. 12	75.43	80.63	74.38	68.49	67.60	700,566
Tuesday, Dec. 13	75.36	80.69	74.21	68.88	67.82	928,670
Wednesday, Dec. 14	75.44	81.04	74.08	68.77	68.02	865,890
Thursday, Dec. 15	75.05	81.50	74.20	69.20	68.13	1,018,830
Friday, Dec. 16	75.49	80.95	74.38	69.04	68.07	827,105
Saturday, Dec. 17	75.67	80.57	74.83	.....	.....	....

INTIMATE TALKS WITH READERS

(*Continued from page* 273.)

accumulation must be done over a certain range, and not at a specified figure. In this a pool is at a disadvantage compared with an individual whose buying or selling is usually at one figure and does not in any way affect the market.

A pool, having taken a long position, is in a position to sell some stock on bulges and replace it on declines, thus marking down the cost of its holdings and increasing the possibility of profits.

Another point to remember about pool operations is that these are rarely undertaken unless some event or condition or bit of news which is expected in the future, or a change in the conditions of the industry is of such a nature as to lead the pool to believe that it will be able to dispose of the stock at higher figures. For example, if the oil business is, as it appears, improving, and those in such a pool believe that within a few months, or half a year, conditions will be so much better that a much higher market will exist, then they would be justified in accumulating most good oil stocks "on weakness."

An operation on the short side would be conducted on the same principle, except that the members of the pool would probably sell all their long stocks first and then get a short position by keeping the stock within a trading zone of a certain number of points and distributing to any buyers that appeared.

It is for the above reason that trading zones, which we have previously referred to, are quite important, inasmuch as they frequently show preparation for an upward or downward move, and as such can be watched for an inkling as to which way this swing is likely to be.

What "Sold Out" Means

In stock market literature, we very often see the expression "sold out" referring to the condition of the whole market or of a certain stock in which there is very little pressure and no more offerings for sale. When a stock reaches this condition there are very few and only very small transactions with little variation: sometimes there may be a day or two when no transactions at all will take place. This means that liquidation has ceased and that the stock is in a position to respond to any favorable news.

"Market Orders" and "Limited Orders"

Ordinarily the ticker is seldom more than a minute or so behind the actual transactions happening on the floor of the Exchange, and orders placed "at the market" can ordinarily be executed and reported to the customers within three to five minutes. However, in very active markets the ticker is frequently behind, so that proper allowance must be made for prices and reports. Normally, do your buying and selling "at the market" in all active stocks; in other cases, either get a quotation and make your price or place a limit. You can say, for instance, "Sell 100 Louisville & Nashville at 98 *or better,*" and be sure you will not get less; and you may even get 99 if the market happens to be 98-100. Whereas, you might get 95 if the market slips, and the "quote" is altered to 95-98. Most preferred stocks are "inactive," and had better be quoted and price limits made before buying or selling. The same applies to the majority of bonds that often fluctuate a point or over between sales. Make your orders "good until countermanded," and remember your orders. Cancel such "open orders" when you make changes.

THAT STEEL MERGER

(*Continued from page* 256.)

jumps before taking any steps to carry them through.

And if the consolidation is consummated room for other mergers would still exist. It is conceivable that the great head of Bethlehem Steel, Charles M. Schwab, will eventually absorb plants rounding out his organization further. A number of small concerns will of necessity be left out and these may consolidate for self protection if for no other reason. The next year or so promises to be one of many steel groupings.

A Word of Warning

It might not be out of place to insert here a word of warning to the speculator:

Any steel merger that is worked out will be on a basis of values. It cannot hope to succeed otherwise under present day conditions. Purchase of steel stocks merely on consolidation rumors and without regard to values would therefore be unwise.